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SOLUTIONS NEEDED: IMPROPER PAYMENTS TOTAL $115 BILLION IN FEDERAL MISSPENDING

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT ORGANIZATION, EFFICIENCY AND FINANCIAL MANAGEMENT

OF THE

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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SOLUTIONS NEEDED: IMPROPER PAYMENTS TOTAL $115 BILLION IN FEDERAL MISSPENDING

TUESDAY, FEBRUARY 7, 2012

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION,
EFFICIENCY AND FINANCIAL MANAGEMENT,
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m. in room 2247, Rayburn House Office Building, Hon. Todd "Russell" Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Farenthold, Towns, and Connolly.

Staff present: Sharon Casey, senior assistant clerk; Mark D. Marin, director of oversight; Tegan Millspaw, research analyst; Laura L. Rush, deputy chief clerk; Peter Warren, legislative policy director; Jaron Bourke, minority director of administration; Beverly Britton Fraser, minority counsel; Devon Hill, minority staff assistant; and Paul Kincaid, minority press secretary.

Mr. PLATTS. The committee will come to order.

I am glad to welcome everyone here today and appreciate everyone's interest in this important topic.

The hearing today will address improper payments made by the Federal Government and will continue this subcommittee's examination of Federal financial management issues.

In fiscal year 2011, the Federal Government reported $115 billion in improper payments. We know that this is only an estimate and that the total amount of improper payments is unknown and likely even higher.

Improper payments occurs for a variety of reasons, but they are the result of poor financial management. Programs are particularly vulnerable to improper payments when agencies fail to maintain effective internal controls, adequate financial management systems or insufficient oversight. These programs are classified as high error.

In fiscal year 2011, the Office of Management and Budget identified 11 high error programs. These 11 programs made up 94 percent of all improper payments identified in 2011. At the top of the list are Medicare and Medicaid programs which account for over half of all reported improper payments. Other high error programs include unemployment insurance, social security and the earned income tax credit. Some of these high error programs are uniquely

challenged due to their large budgetary obligations. However, they all share similar problems of ineffective, internal controls.

In order to reduce improper payments, agencies must reevaluate their internal control structures and increase accountability in program management. There must also be more effort to ensure that agencies report their improper payments. Although not all agencies are required to report such improper payment estimates, some agencies that are required to do so are failing to do so.

The most significant agency failing to report is the Department of Defense, although both the Government Accountability Office and the Defense Office and Inspector General have found that the Department is at a high risk for improper payments. Over the past decade, there has been significant work by both President Bush and his administration and President Obama and his administration to reduce and prevent improper payments.

While some agencies have made progress in identifying and reducing improper payments in certain programs, many of the agencies still lack the necessary framework of internal controls that could lead to a sustainable decrease in such payments. It is clear that better solutions are needed to protect taxpayer dollars and to bring accountability to Federal spending.

An increased focus on preventive controls would allow agencies to stop more improper payments before they are issued. Better detection methods would also help prevent and recover more payments. Most importantly, the government must do a better job of identifying the root causes of improper payments.

Until we understand how and why these payments are being made, it will be impossible to effectively prevent them. Billions of taxpayer dollars are misspent every year through improper payments. This administration and agency leaders have made significant efforts to reduce these payments and the work is both important and commendable. However, we need more solutions to better protect taxpayer funding.

We are honored to be joined here today by Senator Carper to discuss a bill currently being considered to help reduce improper payments. We will also hear from witnesses on the problems that lead to improper payments and what we can do to prevent them. We certainly are grateful for each of the witnesses who will share their expertise and knowledge with us here today and look forward to their testimony.

I am now honored to recognize the ranking member, the former chairman of the full committee, Mr. Towns from New York, for the purpose of an opening statement.

Mr. TOWNS. Thank you very much, Mr. Chairman.

I am pleased that we are continuing to examine the progress we have made in reducing improper payments and also the challenge which remains.

I would like to welcome Senator Carper, a dedicated, committed and tireless champion, of good government in the other Chamber. It is my hope that we can work closely together on our proposal to build a bridge between where we are now and the elimination of improper payments in the future.

Mr. Werfel, it is good to see you again. Ms. Davis and Mr. Wood, welcome, and I look forward to your testimonies.

The Obama administration has put forth very robust initiatives to eliminate improper payments which is one of the key components of the President's effort to eliminate waste in government. I am encouraged that we have seen some positive results. In fiscal year 2011, the Federal Government shrank the amount of improper payments by 4.7 percent or $5.3 billion compared to the prior year.

While this is a significant accomplishment, the level of improper payments is still unacceptably high. Some of the initiatives responsible for the drop in improper payments include the Do Not Pay list which the President called for in June 2010 in order to prevent ineligible recipients from being paid repeatedly.

The VerifyPayments.gov Web site was created to enhance this effort. We will hear from Senator Carper today about a legislative fix that would make checking the Do Not Pay list the law of the land. The President also asked agencies to be transparent about the amount of improper payments and to account to the American public for their actions in addressing the problem. I am pleased that the PaymentAccuracy.gov Web site has been up and running and shows the exact information which is also a great response.

President Obama expanded the use of payment recapture audits as a way of detecting paying errors and recovering improper overpayments. Since 2010, agencies have recaptured nearly $1.9 billion in improper payments for our Treasury.

Once again, we look forward to hearing Senator Carper's proposal on how to improve this initiative. A healthy financial future for the United States requires sustained efforts from more than one source. We have to watch what we spend, get rid of the waste, increase revenue and reduce improper payments all at the same time to accomplish this goal.

Our witnesses are the professionals in our government dedicated to achieving all of these goals. They will explain our gains, our challenges and propose solutions that will keep us on the path to eliminating waste in our government.

I am looking forward to working in a bipartisan way to reduce the cap and capturing the improper payments.

Thank you very much, Mr. Chairman. On that note, I yield back and I am anxious to hear the Senator from the other side.

[The prepared statement of Hon. Edolphus Towns follows:]

Statement of
Edolphus Towns, Ranking Member
Subcommittee on Government Organization, Efficiency and Financial Management
Hearing on February 7, 2012 at10:00 a.m.

"Solutions Needed: Improper Payments total $115 Billion in Federal Misspending"

Mr. Chairman, I am pleased that today we are continuing to examine the progress we have made in reducing improper payments, and also the challenges which remain. I would like to welcome Senator Carper, our tireless champion of good government in the other chamber. It is my hope that we can work closely together on your proposal to build a bridge between where we are now and the elimination of improper payments in the future. Mr. Werfel, it's good to see you again. Ms. Davis and Mr. Wood, welcome. I am looking forward to your testimony.

The Obama Administration has put forth very robust initiatives to eliminate improper payments, which is one of the key components of the President's effort to eliminate waste in government. I am encouraged that we have seen some positive results. In fiscal year 2011, the Federal Government shrank the amount of improper payments by 4.7% or **$5.3 billion,** compared to the prior year. While this is a significant accomplishment, the level of improper payments is still unacceptably high.

Some of the initiatives responsible for the drop in improper payments include the "Do Not Pay List," which the

President called for in June of 2010 in order to prevent ineligible recipients from being paid repeatedly. The "Verify-Payment-Dot-gov" website was created to enhance this effort. We will hear from Senator Carper today, about a legislative fix that would make checking the "Do Not Pay List" the law the land.

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President Obama expanded the use of "Payment Recapture Audits" as a way of detecting payment errors and recovering improper overpayments. Since 2010, agencies have recaptured nearly **$1.9 billion** in improper payments for our treasury. Once again, we look forward to hearing Senator Carper's proposal on how to improve on this initiative.

A healthy financial future for the United States requires sustained effort from more than one source. We have to watch what we spend, get rid of waste, increase revenue and reduce improper payments, all at the same time to accomplish this goal. Our witnesses are the professionals in our government dedicated to achieving all of these goals. They will explain our gains, our challenges and propose solutions that will keep us on the path to eliminating waste in our government. I am looking forward to a working on bi-partisan solutions to reducing and recapturing improper payments.

Mr. PLATTS. I thank the gentleman and certainly echo Mr. Towns' comments about work on this issue in a bipartisan and bicameral manner because it is truly about protecting the taxpayers' hard-earned dollars.

We will have the record open for 7 days for other Members who want to submit an opening statement or extraneous material for the record.

We are honored to have the senior Senator from Delaware, the Honorable Thomas R. Carper, also chairman of the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security of the Senate Homeland Security and Government Affairs Committee. Senator, I thought I had a committee with a long title but I think you have outdone me.

Mr. Chairman, we really appreciate your efforts. You are a longtime leader on government reform issues and especially about protecting taxpayer funds. Not only do we look forward to working with you, but we are honored to have you here to share your insights about the legislation you have introduced.

Without further ado, Mr. Chairman, the floor is yours.

STATEMENT OF HON. THOMAS R. CARPER, A U.S. SENATOR FROM THE STATE OF DELAWARE

Senator CARPER. Thank you, Chairman Platts, and my compadre and friend, for many years, Ed Towns.

I came to government, as I mentioned to you earlier, to Congress in 1982 when we are about to run out of money in Social Security, not reduce payments, but literally in 1983, run out of money entirely.

We had a Republican President, Ronald Reagan; Democratic Speaker of the House, Tip O'Neill; and a lot of Democrats and Republicans here went to work and I used as a blueprint a commission led by Alan Greenspan and solved the problem, not forever, but for another 25 or 30 years and put Social Security on a pretty good path. It was that bipartisan spirit, the House and Senator working together, the legislative and executive branch with some really smart people who joined Alan Greenspan.

I come to you in that same spirit that led us to that success in 1982 and 1983 and hopefully we can rekindle that here today. I thank you very much for the chance to come by and to revisit these old haunts and to have a chance to see both of you too.

As everyone in this room knows, we have faced record budget Federal deficits in recent years. The national debt now stands, I am told, at something over just $15 trillion, well over double what it was just a decade ago. The last time the debt was this high I think was at the end of World War II. That level of debt was not sustainable then and it is not sustainable now.

I talk a lot about cultures that we have here in Washington and suggest that what we ought to do is establish a different kind of culture when it comes to spending. A lot of people think we have a culture of spendthrift around here and that we should replace it with a culture of thrift. I agree and I am sure you do too.

I think we need to look in every nook and cranny of Federal Government, including domestic spending, defense, entitlements, and tax expenditures. We need to ask the question is it possible to get

better results for less money or is it possible to get better results for the same amount of money, and if it is, let us do that. Do what works and frankly do more of that.

In order to be effective in the important work of identifying areas where we can spend taxpayers' money more effectively, we need to sharpen our pencils, stop making the kind of expensive, avoidable mistakes that lead to improper payments.

Before going any further, I want to take just a moment to explain what it means for Federal agencies to make improper payments. Improper payment occurs, as you know, when an agency pays a vendor for something it did not receive or maybe even pays twice for what it did receive. It can occur when a recipient has died and is no longer eligible for payment or when a vendor owes the government money and legally should not be getting a payment until a debt is repaid. Of course, sometimes people or companies receive payments that are actually fraudulent.

Federal agencies have estimated, as you noted, improper payments at levels of more than $100 billion annually during the past few years. Whenever I talk to people out on the stump, in my State or around the country about one of the keys to reducing the deficit is to address improper payments, their eyes kind of glaze over when I say the words improper payments until I tell them how much they were, until I say, did you know improper payments were $121 billion last year. That gets their attention.

Those payments come from over 70 programs and more than 20 agencies and include programs like Medicare, Medicaid, civilian and military pay at the Department of Defense, and at FEMA, to name just a few. Clearly this level of inaccuracy particularly as the Federal Government struggles with our massive debt and deficit is unacceptable.

Fortunately, we can do something about it. If the truth be known, we already are and we are beginning to make some progress. I want to take a moment to say this. The folks sitting behind me from GAO, I just want to thank them for being great partners with all of us in trying to identify areas where we are in danger of wasting a lot of our taxpayers' money.

I want to give OMB a lot of credit. The last administration under President Bush said we have a problem with improper payments and we should do something about it and got us started on this path. This administration, to their credit, has pushed it hard and OMB has been very, very supportive of our efforts.

There are several additional effective tools that are able to curb wasteful and fraudulent payments. Today, I just want to outline a couple of steps that Congress can take now that will make an even bigger dent in improper payments and help get Federal spending back on track.

According to GAO, the Federal Government made an estimated $121 billion in improper payments in fiscal year 2010. I was encouraged to learn that the early data for fiscal year 2011 shows a slight drop in the level of improper payments to approximately $115 billion, even though more agencies have begun reporting their improper payments.

For example, 2011 estimates include something that 2010 did not and that is improper payments for the Medicare Prescription Drug

Program for the first time and even though that is included, we still see apparently improper payments dropped from 2010 to 2011 by about $6 billion, that's a lot of money. That is twice the budget of the State of Delaware in a single year.

Having said that, error rates and the amount of money lost to avoidable errors still remain at unacceptably high levels. While agencies are beginning to make progress in implementing new anti-waste, fraud controls and procedures, I believe a lot more work needs to be done to identify, recover and prevent improper payments. I like to say if it isn't perfect, make it better. With us all working together, we can make it better.

What disturbs me about the problem here in the Federal Government is that we seem to make these kinds of mistakes at a rate much higher than a business or the average family would tolerate or could afford and we keep making them over and over again. Having said that, we are making some progress in improper payments as I noted earlier.

In 2010, you may recall Congress passed and President Obama signed into law, the Improper Payments Elimination and Recovery Act, a bipartisan bill. Dr. Coburn and I collaborated on it. We had a lot of bipartisan support in passing it. This new law aimed at making agencies and agency leadership far more accountable for the expensive mistakes that they make. Again, it represents bipartisan and bicameral progress in this important area.

The 2010 law basically does four things. First, it says Federal agencies across the board have to report improper payments. Second, you have to stop making them. Third, we want you to go out, where it is feasible and where it is practical, and recover the moneys that have been improperly paid. Fourth, we called for agency managers to be evaluated, at least in part, on how well they complied with this new law.

A wide variety of ideas have been put forth on how to further curb improper payments and in the progress, reduce our budget deficit and begin whittling down our debt as well. For example, recognizing that more than half of all Federal improper payment estimates are from the Medicare and Medicaid Programs, last year that same guy, Senator Tom Coburn and I teamed up to introduce legislation to curb waste and fraud in both of those programs, Medicare and Medicaid.

The bipartisan legislation is S. 1251, the Medicare and Medicaid Fighting Fraud and Abuse to Save Taxpayer Dollars Act. We take a series of commonsense steps to identify and prevent fraud and waste in Medicare and Medicaid. It drills down into specific waste and fraud challenges within health care such as physician identity theft, the need for improved fraud data sharing between the Federal Government and State agencies, and quick identification of improper payments to medical providers.

Our bipartisan legislation is now attracted 33 co-sponsors, a third of the Senate, bipartisan. There is now a companion bill in the House led by Congressman Peter Roskam and Congressman Carney from Delaware, my colleague and friend, John Carney.

Our legislation has garnered the support of a wide of organizations including the National Taxpayers Union, Citizens Against Government Waste, and AARP, not always names you hear to-

gether in the same sentence. Most of the provisions of these bills are based on GAO's good work and the Inspector General recommendations.

Let me briefly focus on an important new measure that would help all Federal agencies prevent, detect and recover improper payments. Bipartisan legislation that I co-authored with Senator Susan Collins, S. 1409, the Improper Payments Elimination and Recovery Improvement Act, is now making its way through the U.S. Senate. This measure builds upon the 2010 Improper Payments law that Tom Coburn and I introduced and shepherded through.

Our new bill recently passed by unanimous consent in the Homeland Security and Government Affairs Committee. I am hopeful it will soon see action on the floor of the U.S. Senate. I see the word action and Senate in the same sentence, I hope to see action on this legislation in the Senate.

Let me talk about a couple provisions in the bill and I will close.

Too often, Federal agencies make improper payments to individuals who could easily be identified as ineligible. Some of these individuals are applying for benefits using a false address—their address may not meet the criteria for eligibility. Take for example, a person with a job applying for unemployment benefits using the name of someone who may actually be dead.

Of course those listening to this hearing may ask the obvious question of would a Federal agency ever pay unemployment insurance benefits to an individual who has died or someone who is trying to commit fraud? That is a good question. Unfortunately, the answer is that all too often agencies simply do not do a very good job of coordinating their efforts to prevent improper payments or communicating about best practices.

When I meet folks who have been married a long time, 50, 60 or 70 years, I say to them what is the secret for being married 50, 60 or 70 years? The best answers I have ever heard are the same, the two C's, communicate and compromise. What we need here is a lot better communication.

Many of those agencies also have antiquated data bases and computer systems for tracking basic payment information. All too often, we simply don't allow agencies to access the information they need to avoid giving scarce taxpayer dollars to the wrong people.

To their credit, the administration, through executive action, is establishing a Do Not Pay Initiative. This effort involves screening recipients of Federal funds against a list of those ineligible to receive those funds before we cut a check, for example, or make a payment. For example, before an agency could award a contract to a company, the agency would have to cross check against the Do Not Pay data base which will include a central, comprehensive data base of companies and entities that are no longer allowed to do work with the Federal Government because of a fraud conviction or some other reason.

Our improper payment legislation establishes the Do Not Pay Initiative in law throughout the Federal Government. We believe it makes several important improvements to the initiative and adds some tools and procedures to help agencies access data.

The legislation also addresses what is called death fraud and other improper payments to deceased individuals. Too many agencies pay benefits to individuals who are deceased and are therefore no longer eligible for payments under program rules. For example, the Office of Personnel Management's Inspector General reported that $601 million in improper payments were made to Federal retirees who have already died during the last 5 years.

However, such payments to dead people were not unique to one program. Last year, one of my home State newspapers reported that 28 years after a Delaware woman had died, one of her relatives was still pocketing, collecting and cashing her social security checks. Improving the collection, verification and use by Federal agencies of data on individuals who have died will help curb hundreds of millions, if not billions, of dollars in improper payments.

Our legislation requires that the Office of Management and Budget, in consultation with other agencies and stakeholders, identify specific solutions and report back to Congress in 180 days after passage. The legislation also includes provisions to strengthen and make more consistent the methods used by agencies to estimate improper payments. This is an issue identified by both GAO and the Inspector General.

Finally, the bill establishes a series of recovery audit contracts to assure that agencies actually recover overpayments. Recovery audit contracting has already proven very successful in the private sector, as well as in several Federal agencies, including within the Medicare Program. In the Medicare Program, we have witnessed recovery of improperly spent taxpayer dollars approaching $2 billion in recent years. We expect those recoveries to continue to growth.

I anticipate that the Senate will look as favorably on S. 1409 as it did on the Improper Payments Elimination and Recovery Act. I want to invite the members of this panel and the House of Representatives to join us in this new effort by introducing a companion bill to S. 1409, improving it where possible, and passing it.

Let me conclude by noting that we are here today in large part because we believe we have a moral imperative to ensure that scarce resources we put into Federal programs are well spent. We must use every tool available to put our fiscal house back in order and to give the American people the government they expect and that they deserve.

It is the right thing to do on behalf of the taxpayers of this country who entrust us with their hard earned money. By working together on this latest series of commonsense initiatives, I believe we can take another important step toward earning their trust once again.

Thank you.

[The prepared statement of Senator Carper follows:]

Hearing Testimony – Senator Tom Carper
House Subcommittee on Government Organization, Efficiency and Financial Management
"Solutions Needed: Improper Payments Total $115 Billion in Federal Misspending"
February 7, 2012

I wish to Thank Chairman Todd Platts, Ranking Member Edolphus Towns and all of the panel members for the opportunity to testify on this morning's important topic of improper payments.

First, I think it is important to explain what it means for a federal agency to make improper payments. An improper payment occurs when an agency pays a vendor for something it didn't receive or, maybe, even pays them twice. It can occur when a recipient has died and is no longer eligible for payment, or when a vendor owes the government money and legally should not be getting a payment until this debt is repaid. And, of course, sometimes people or companies receive payments that are actually fraudulent.

Federal agencies have had estimated improper payments at levels of more than a $100 billion dollars annually during the past few years. These payments come from over 70 programs at more than 20 agencies and include programs like Medicare and Medicaid, civilian and military pay at the Department of Defense; and the Federal Emergency Management Agency, to name just a few.

Clearly this level of payment inaccuracy, particularly as the federal government struggles with our massive debt and deficit, is completely unacceptable.

Fortunately, we can do something about this problem. There are several very real and effective tools available to curb wasteful and fraudulent payments. Today, I would like to outline some steps that Congress can take that will make a big dent in improper payments and help get federal spending back on track.

According to the Government Accountability Office, the federal government made an estimated $121 billion in improper payments in fiscal year 2010. I was encouraged to learn that the early data for fiscal year 2011 shows a slight drop in the level of improper payments to approximately $115 billion, even though more agencies were reporting their improper payments. For example, the 2011 estimate includes improper payments for the Medicare prescription drug program for the first time.

Having said that, error rates – and the amount of money lost to avoidable errors – still remain at unacceptably high levels. While agencies are beginning to make progress in implementing new anti-waste and fraud controls and procedures, I believe that much more work needs to be done to identify, recover, and prevent improper payments.

But what disturbs me about the problem here in the federal government is that we seem to make these kinds of mistakes at a rate much higher than a business or the average family would tolerate or could afford. And we keep making them over and over again.

The drain of improper payments on our federal budgets is a major problem. Our nation faces considerable economic challenges. Partly as a result of those challenges, we've faced record budget deficits in recent years. Our national debt stands at about $15.4 trillion, well over double what it was just ten years ago. The last time the debt was this high was at the end of World War II. That level of debt was not sustainable then, and it is not sustainable today.

We need to establish a different kind of culture in Washington when it comes to spending. We need to establish a culture of thrift to replace what some would call a culture of spendthrift.

We need to look in every nook and cranny of federal spending – domestic, defense and entitlements, along with tax expenditures – and ask this question, "Is it possible to get better results for less money?" If not, is it possible to get better results for the same amount of money we're spending today?

But in order to be effective in that important work of identifying areas where we can spend money more efficiently, we need to sharpen our pencils and stop making the kind of expensive, avoidable mistakes that lead to improper payments.

The good news is that we are seeing some progress in curbing improper payments. In 2010, Congress passed and President Obama signed into law the *Improper Payments Elimination and Recovery Act*. This new law aimed to make agencies and agency leadership much more accountable for the expensive mistakes them make, and represented a bipartisan and bicameral success in preventing waste and fraud. The 2010 law requires more transparency from agencies with regard to waste and fraud within their programs. It also forces managers to take additional steps to end the practices that lead to improper payments and, where appropriate, recover the funds they spend improperly.

We are already seeing the early fruits of success from this legislation and other efforts by Congress and the Administration. This year's numbers show a small, but real reduction in the level of improper payments. And I expect to see further reductions in the coming years.

A wide variety of ideas have been put forward on how to further curb improper payments, and in the process, reduce our budget deficit and begin whittling down our debt, as well. For example, recognizing that more than half of all federal improper payments estimates are from the Medicare and Medicaid program, last year Sen. Tom Coburn and I teamed up to introduce legislation to curb waste and fraud in both programs. The bipartisan legislation – S. 1251, the Medicare and Medicaid Fighting Fraud and Abuse to Save Taxpayer Dollars Act- would take a series of common sense steps to identify and prevent waste and fraud. It drills down into specific waste and fraud challenges within heal care, such as physician identify theft, the need for improved fraud data sharing between the federal government and state agencies, and quicker identification of improper payments to medical providers.

Our bipartisan legislation has 33 cosponsors in the Senate, there is a companion bill in the House led by Congressmen Roskam and Carney, and has garnered the support of a wide range of organizations such as the National Taxpayer's Union and Citizens Against Government Waste, to A-A-R-P. Most of the provisions are based on Government Accountability Office and inspector general recommendations.

Today I would like to focus on an important new measure that would help all federal agencies prevent, detect and recover improper payments. Bipartisan legislation that I co-authored, S. 1409, the *Improper Payments Elimination and Recovery Improvement Act*, is now making its way through the Senate. This bill builds upon the 2010 improper payments law and was recently passed by Unanimous Consent in the Homeland Security and Government Affairs Committee. I am hopeful that it will soon see floor action in the Senate.

I'll talk about just a few of the provisions in the bill.

Too often, federal agencies make improper payments to individuals that could easily be identified as ineligible. Some of these individuals are applying for benefits using a false address. Others may not meet the criteria for eligibility – for example, a person with a job applying for unemployment benefits. In too mant cases, they may actually be deceased. Of course, those watching this hearing may ask the obvious question of why a federal agency would ever pay an individual who has died or is trying to commit fraud?

Unfortunately, the answer is that, all too often, agencies simply don't do a very good job of coordinating their efforts to prevent improper payments or communicating about best practices. Many also have antiquated databases and computer systems for tracking basic payment information. And all too often, we simply don't allow agencies to access the information they need to avoid giving scarce taxpayer dollars to the wrong people.

The Administration, through executive action, is establishing a "Do Not Pay Initiative." This effort involves screening recipients of federal funds against a list of those ineligible to receive those funds *before* we cut a check. For example, before an agency could award a contract to a company, the agency would have to cross check against the "Do Not Pay" database, which will include a central, comprehensive database of companies and entities that are no longer allowed to do work with the Federal government because of a fraud conviction or some other reason. Our improper payments legislation establishes the Do Not Pay Initiative in law throughout the federal government, makes a few important improvements to the initiative, and adds some tools and procedures to help agencies access data.

The legislation also addresses what is called "death fraud" and other improper payments to deceased Individuals. In too many instances, agencies pay individuals who are deceased, and should therefore no longer be eligible under program rules. For example, the Office of Personnel Management Inspector General reported that $601 million in improper payments were made to federal retirees found to have already died during the past five years. However, such payments to dead people were not unique to this one program. Last year, one of my home state newspapers reported that, 28 years after a Delaware woman died, her relative was still fraudulently collecting and cashing her Social Security checks. Improving the collection,

verification, and use by federal agencies of data on individuals who have dies will help curb hundreds of millions, if not billions of dollars, in improper payments. Our legislation requires that the office of Management and Budget, in consultation with other agencies and stakeholders, identify specific solutions and report back to Congress.

The legislation also includes provisions that strengthen and make more consistent the methods used by agencies to estimate improper payments. This has been an issue identified by both the Government Accountability Office, and the inspector general community.

Finally, the bill establishes a series of recovery audit contracts to ensure that agencies actually recover overpayments. Recovery Audit Contracting has proven very successful in the private sector as well as in several federal agencies, including within the Medicare program where we have seen recoveries of improperly spent taxpayer dollars approaching $2 billion.

Anticipating that the Senate will look as favorably on S. 1409 as it did on the *Improper Payments Elimination and Recovery Act,* I ask that this panel consider joining us in this new effort, perhaps even by introducing a companion bill.

We are here today in large part because I believe that we have a moral imperative to ensure that the scarce resources we put into federal programs are well spent. We must use every tool available to bring our fiscal house back in order and give the American people the government they deserve. It is the right thing to do on behalf of the taxpayers who entrust us with their hard-earned money.

2/6/2012

Mr. PLATTS. Senator, thank you for a well stated synopsis of the challenges before us, the progress we have made and what we need to do as your legislation proposes. We certainly do look forward to working with you.

I certainly appreciate a couple of the points you made. It is always good to be able to kind of poke fun at ourselves. Your reference to action in the Senate is appreciated on the House side. We sometimes share that sentiment.

Senator CARPER. I have sat in your seat.

Mr. PLATTS. Exactly. I would say personally, of all the points you made, as one who will celebrate 22 years of marriage this summer, looking to hit 50 and 60 and beyond, compromise and communication both in marriage and in government are necessary for success. I think that is a very important message for all of us here in Washington to keep things simple with what works at home in our marriages can work here.

I know I speak for the ranking member as well and the members of this committee in saying we do look forward to a partnership between the House and the Senate, bicameral, bipartisan, just to do right by the American people. We are grateful for your efforts here today to share your insights.

Senator CARPER. These are a couple of our ideas we wanted to share with you. They are not just Democratic ideas, not just Republican ideas, just smart ideas. You all have a lot of good ones over here. I note you are going to be here for one more year and you will be stepping down and sailing off into the sunrise.

I just want to say we all have good ideas. We just need to do a better job of sharing those ideas with us and communicating better to say what do you think of this, let's see if we can work on this together. In the instances I talked about and some good stuff that you have for us to pay more attention to, and we would love to do that.

Mr. PLATTS. We look forward to it. Thank you again.

We will take a brief recess while we reset for the second panel.

[Recess.]

Mr. PLATTS. We were happy to have Senator Carper with us, his insights and commitment to good government issues, especially fiscal responsibility.

We are also delighted and honored to have the next panel. We welcome all three of you and appreciate your willingness to share your expertise with us. The Honorable Daniel I. Werfel serves as the Controller for the Office of Federal Management at the Office of Management and Budget. Mr. Mike Wood is executive director of the Recovery Accountability and Transparency Board. Ms. Beryl Davis is Director of Financial Management and Assurance at the Government Accountability Office.

We appreciate your testimony, not just today, but day in and day, the work that each of you is doing to serve our fellow citizens and well protect the hard earned tax dollars of all Americans.

Pursuant to committee rules, now that you are seated, if I could ask you to stand so that we can swear you in. I ask that you rise and raise your right hands.

[Witnesses sworn.]

Mr. PLATTS. Let the record reflect that all witnesses affirmed the oath. Please be seated.

We have had a chance to review your written testimony and if you can try to keep your initial statement today about 5 minutes. If you need to go over some, we are not going to be sticklers too much for that, but we do want to save time for questions and answers and to have a more engaged discussion with you as we can, time allowing.

With that, Mr. Werfel, would you like to begin?

STATEMENTS OF DANIEL I. WERFEL, CONTROLLER, OFFICE OF MANAGEMENT AND BUDGET; MICHAEL WOOD, EXECUTIVE DIRECTOR, RECOVERY ACCOUNTABILITY AND TRANSPARENCY BOARD; AND BERYL DAVIS, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF DANIEL I. WERFEL

Mr. WERFEL. Thank you, Chairman Platts, Ranking Member Towns and distinguished members of the subcommittee for inviting me to discuss the Federal Government's efforts in preventing, reducing and recapturing improper payments.

We can all agree that improper payments degrade the integrity of programs and compromise taxpayers' trust in their government. In fact, combating improper payments has been a leading priority of the administration's campaign to cut waste. Our intensive efforts to reduce improper payments are guided by the President's bold goals and by key reform ingredients such as transparency, accountability, collaboration and innovation.

These efforts are producing real results. We are on track to meet or exceed the bold goal set by the President, having decreased the governmentwide error rate sharply from 5.4 percent in 2009 to 4.7 percent in 2011 and by doing so, avoided making more than $20 billion in improper payments over the last 2 years. We have also nearly met the President's goal to recapture $2 billion in overpayments to contractors.

Today, I would like to quickly highlight three important initiatives that anchor our efforts. First, the 2009 Executive order on Reducing Improper Payments, we have made great strides in implementing this Executive order by identifying agencies with high error programs that account for the majority amount of improper payments, establishing supplemental measures to provide more frequent and current measurements for the majority of these high error programs, and selecting accountable officials responsible for coordinating agency efforts to reduce improper payments. All of this information is transparent and readily available to the public at PaymentAccuracy.gov.

Second is the implementation of the Improper Payments Elimination and Recovery Act of 2010, IPERA. Last year, OMB released guidance to agencies on implementing IPERA to ensure that they are properly assessing risks in their programs, measuring and reporting improper payments and establishing corrective action plans and reduction targets.

IPERA also expanded agencies' authorities and requirements for recapturing over payments and created sanctions for agencies that are found noncompliant with the law by their Inspector General.

Third is the implementation of the Do Not Pay solution. In June 2010, the President directed the establishment of a single point of entry where agencies could access relevant data before determining eligibility for a payment or award and thereby avoid paying ineligible recipients. In addition to this memorandum, the Government Accountability and Transparency Board recently recommended that OMB work with agencies and the Recovery Accountability and Transparency Board to create a centralized accountability framework that all agencies can use to prevent waste, fraud and abuse.

In response, the Department of Treasury has established the GoVerify Business Center, a single entry point that agencies can access to determine eligibility information prior to making an award or payment. The GoVerify Business Center is comprised of two components. One component is the GoVerify Portal, a Web-based, single entry access portal that assists efforts to prevent improper payments by enabling agencies to access data sources at a centralized location. The other component is the GoVerify Data Analytics Services, a resource that provides advanced data analytics to identify trends, risks and patterns of behavior that may lead to further investigation on the part of the agency.

When the President took office, improper payments were on the rise. Today, based on efforts underway, and the collaborative work of the administration and Congress, we are on track to meet or exceed the President's goals to cut improper payments by $50 billion and recapture $2 billion in overpayments to contractors by the end of this fiscal year.

We have seen error rate reductions in almost every major program with a history of significant errors, including Medicare, Medicaid, SNAP, rental housing, the earned income tax credit, Pell grants and supplemental security income. As I referenced earlier, without these declines, the government would have made over $20 billion in additional improper payments in 2010 and 2011 combined.

The administration will continue to work through the Campaign to Cut Waste to reinforce a sense of responsibility and accountability for taxpayer dollars and make clear that no amount of waste in our Federal programs is acceptable.

Thank you again for inviting me to testify. I look forward to answering your questions.

[The prepared statement of Mr. Werfel follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
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Testimony of Daniel I. Werfel
Controller, Office of Management and Budget
before the
House Committee on Oversight and Government Reform
Subcommittee on Government Organization, Efficiency and Financial Management

February 7, 2012

Introduction and Overview

Thank you Chairman Platts, Ranking Member Towns, and distinguished members of the Subcommittee, for inviting me to discuss the Federal Government's efforts in preventing, reducing, and recapturing improper payments. Last year, I spoke before the Subcommittee about improper payments, and I appreciate the opportunity to be back here to provide an update on this very important topic. Combating improper payments is a leading priority in the Administration's Campaign to Cut Waste. Building upon a number of discrete steps that have been taken in conjunction with Congress since 2009, our results demonstrate critical and significant progress in this area. Most notably, the government-wide error rate declined from over 5.4 percent[1] in 2009 to 4.7 percent last year. Without this decline, the Government would have made over $20 billion in additional improper payments.

Improper payments occur when funds go to the wrong recipient, an ineligible recipient receives a payment, a recipient receives the incorrect amount of funds (including overpayments and underpayments), documentation is not available to support a payment, or a recipient uses funds in an improper manner. Not all improper payments are fraud, and not all improper payments represent a loss to the government, but we can all agree that improper payments degrade the integrity of government programs and compromise taxpayers' trust in their government.

As a result, the Administration has launched an intensive effort to reduce improper payments, containing the following five key elements:

(1) *Bold goals*—two years ago, the President set two aggressive goals: to cut $50 billion in improper payments and to recapture at least $2 billion in overpayments to contractors between fiscal year (FY) 2010 and FY 2012;
(2) *Transparency*—we launched the improper payments dashboard, *PaymentAccuracy.gov*, in 2010 to increase transparency by providing taxpayers with useful information and data on improper payments;

[1] In previous testimony to this Subcommittee, this error rate was stated as 5.65 percent. However, the rate was adjusted to 5.42 percent in November 2011 because HHS refined the error rate estimation methodology for Medicare Fee-for-Service, which had an impact on the government-wide rate. More information can be found in the FY 2011 HHS Agency Financial Report (www.hhs.gov/afr/2011afr.pdf).

(3) *Accountability*—the President signed an Executive Order in 2009 requiring agencies with high-error programs to designate Accountable Officials who are responsible for coordinating efforts to reduce improper payments;
(4) *Partnership and collaboration with stakeholders*—the President worked with both parties in Congress to pass the Improper Payments Elimination and Recovery Act of 2010, and we continued to work closely with Federal agencies and states to address improper payments; and
(5) *Innovation*—we have challenged agencies to get outside of their comfort zones and develop game-changing corrective actions to tackle improper payments, rather than continuing to accept the status quo and modest results. We have also been promoting the use of cutting-edge technology to prevent improper payments and identify fraud—such as the "Recovery Operations Center" developed by the Recovery Accountability and Transparency Board, and the tool being developed by the Department of the Treasury as part of the "Do Not Pay" effort.

As I noted at the outset of my remarks, our efforts are producing real results. We are on track to meet or exceed the bold goals set by the President, having decreased the government-wide error rate sharply to 4.7 percent, and having avoided making more than $20 billion in improper payments over the last two years. We have also, a year ahead of schedule, nearly met the President's goal to recapture $2 billion in overpayments to contractors. The remainder of my testimony today will provide more details on our recent results, and will elaborate on current Administration activities to address improper payments.

Administration Efforts

This Administration has worked hard to bring down the payment-error rate, recapture misspent funds, and meet the bold goals set by the President two years ago. Our partnership with Congress, including this Subcommittee, has been vital to advancing these goals. The enactment of the bipartisan Improper Payments Elimination and Recovery Act of 2010 (IPERA) was an important milestone in this partnership, providing Federal agencies with new tools to address payment errors. We are thankful for the leadership provided by this Subcommittee, as well as your colleagues in the Senate, and we look forward to working with Congress on any legislative efforts that will help to advance our work on improper payments, including the legislation that Chairman Carper testified about at today's hearing. And, as I will discuss later, the recent congressional support of the Administration's proposal to fund the "Do Not Pay" efforts at the Department of the Treasury is a significant contribution to the Government's ability to prevent improper payments before they happen.

I would like to highlight and provide a brief description of three important initiatives that anchor our efforts: (1) implementation of Executive Order 13520 on Reducing Improper Payments; (2) implementation of IPERA; and (3) implementation of the "Do Not Pay" solution.

Executive Order 13520 on Reducing Improper Payments

In response to the large increase in improper payments between FY 2008 and FY 2009, on November 20, 2009, the President issued Executive Order 13520, *Reducing Improper*

Payments.[2] The Executive Order aimed to reduce and prevent improper payments by enhancing transparency, increasing agency accountability, and exploring incentives for State and local government efforts to reduce improper payments in State-administered programs (like Unemployment Insurance, Medicaid, and the Supplemental Nutrition Assistance Program—formerly known as Food Stamps). The Executive Order represented a fresh approach to addressing improper payments.

Agencies have made great strides in implementing the Executive Order to date. We have identified agencies with high-error programs that account for the majority of the amount of improper payments, established supplemental measures to provide more frequent and current measurements for the majority of these high-error programs, and selected Accountable Officials who are responsible for coordinating efforts to reduce improper payments. All of this information is readily available to the public on an improper payments dashboard at *PaymentAccuracy.gov,* as well as through *Performance.gov*. Specifically, the dashboard, which was required by the Executive Order, includes: (1) government-wide and program-by-program data on improper-payment rates, amounts, and reduction targets for high-error programs; (2) data on the amount of contract payment errors that have been recaptured; (3) the identity of each agency's Accountable Official; (4) Administration strategies to address improper payments; (5) agency success stories; and (6) answers to commonly-asked questions about improper payments.

Stakeholder outreach and engagement was also a theme of the Executive Order. For example, the Executive Order charged the Office of Management and Budget (OMB) to work with Federal, State and local officials to make recommendations to improve "the effectiveness of single audits in identifying improper payments and opportunities to streamline or eliminate single audit requirements where their value is minimal." Subsequently, in a Presidential Memorandum issued on February 28, 2011 (*Administrative Flexibility*) aimed at reducing administrative burden for States, localities, and tribes, the President further directed OMB to "review and where appropriate revise guidance concerning cost principles, burden minimizations, and audits for State, local, and tribal governments in order to eliminate, to the extent permitted by law, unnecessary, unduly burdensome, duplicative, or low-priority recordkeeping requirements and effectively tie such requirements to achievement of outcomes."[3]

In response to these directives, OMB convened multiple working groups with both Federal and non-Federal stakeholders to provide recommendations that would meet these goals. OMB is evaluating these recommendations and considering the appropriate means to initiate reforms that will strengthen the Single Audit Act and make it a more powerful tool in combating improper payments.

Implementing IPERA

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[2] Executive Order 13520 can be viewed on the White House's website at: http://www.whitehouse.gov/sites/default/files/omb/assets/financial_improper/11202009_improper_payments.pdf.
[3] The Presidential Memorandum can be found at: http://www.whitehouse.gov/the-press-office/2011/02/28/presidential-memorandum-administrative-flexibility

In July 2010, the President signed IPERA into law. We continue to work actively with agencies to implement this law, and believe that it provides agencies with more tools and incentives to prevent, reduce, and recapture improper payments. In addition to requiring agency corrective-action plans and reduction targets, IPERA requires agencies to establish mechanisms to hold managers, programs, and, where appropriate, States and localities, accountable for addressing improper payments.

To help guide this process, last year, OMB released guidance to agencies on implementing IPERA.[4] This guidance ensures that agencies are properly assessing risk in their programs, measuring and reporting improper payments for required programs, and establishing corrective-action plans and reduction targets to drive agency performance. In addition, when improper payments are made, IPERA and the implementing guidance expand the agencies' authorities and requirements for recapturing overpayments. IPERA also expands the types of payments and activities that should be reviewed through payment-recapture audits and changes what agencies can do with those recaptured funds. In addition, IPERA creates sanctions for agencies that are found non-compliant with the law by their Inspector General. Armed with these and other tools, we believe that IPERA is having a direct and powerful impact in preventing improper payments and recovering funds where payment errors do occur.

Implementing the "Do Not Pay" Solution

To provide agencies with further tools to combat improper payments, on June 18, 2010, the President issued a Memorandum—*Enhancing Payment Accuracy Through a "Do Not Pay List"*—directing agencies to "review current pre-payment and pre-award procedures and ensure that a thorough review of available databases with relevant information on eligibility occurs before the release of any Federal funds."[5] The Memorandum also directed the establishment of a single point of entry where agencies could access relevant data before determining eligibility for a benefit, grant or contract award, or other federal funding mechanisms, thereby helping to avoid making payments to ineligible recipients. This approach draws heavily on the model established by the Recovery Accountability and Transparency Board (RATB)'s Recovery Operations Center (also known as the "ROC"). The ROC has been instrumental in keeping fraudulent actors from attacking programs funded under the American Recovery and Reinvestment Act of 2009 (ARRA, Pub. L. 111-5) by using cutting-edge forensic technology to protect taxpayer interests.

This experience made clear that a new approach to preventing and detecting fraud and other forms of improper payments government-wide could have a profound impact on the integrity of Federal programs and the accuracy of Federal payments. This recognition is one of the central reasons the President established the Government Accountability and Transparency Board (GATB) through Executive Order 13576 in June 2011.[6] And last month, the GATB reported back to the President with a recommendation that OMB work with the RATB and the agencies to create a centralized accountability framework across the Government that all agencies can access

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[4] The guidance is available at: http://www.whitehouse.gov/sites/default/files/omb/memoranda/2011/m11-16.pdf.
[5] The Presidential Memorandum can be found at: http://www.whitehouse.gov/sites/default/files/omb/assets/financial_improper/06232010_donotpaylist.pdf.
[6] The Executive Order can be found at: http://www.whitehouse.gov/the-press-office/2011/06/13/executive-order-delivering-efficient-effective-and-accountable-governmen.

and leverage to prevent and detect waste, fraud, and abuse. The vision of the GATB is in lock-step with what the President outlined with the "Do Not Pay List," as this centralized approach to accountability and payment oversight will result in significant savings, and promote rapid innovation and collaboration on best practices and data sharing to advance efforts to reduce improper payments in a variety of Federal programs.

In response to these directives, the Department of the Treasury (Treasury) has established the GOVerify Business Center. The GOVerify Business Center is a significant step toward meeting the President's directive to establish a single-entry point that agencies can access to determine eligibility information prior to making an award or payment, while also providing other services recommended by the GATB. Specifically, the GOVerify Business Center is comprised of two components geared towards reducing improper payments:

- The GOVerify Portal – a web-based, single-entry access portal that assists efforts to prevent improper payments by enabling agencies to access data sources identified in the Memorandum in a centralized location.

- The GOVerify Data Analytics Services – a resource that uses data sources (in addition to those data sources included in the GOVerify Portal) to provide advanced data analytics, such as identifying trends, risks, and patterns of behavior that may warrant a more thorough analysis and investigation on the part of the agency.

As we move forward with Treasury on this effort, we are discovering that increasing agency access to relevant data sources and driving efficiencies in the current process for inter-agency data sharing is likely to improve improper payment outcomes. However, as I have discussed in previous testimonies, such steps must be carefully weighed against the need to protect privacy and ensure data security. We welcome the opportunity to work with this Subcommittee and others in Congress to carefully examine these issues and determine whether reforms can be identified that successfully balance these various objectives. In the meantime, Treasury is proceeding in a manner that complies with all applicable laws, regulations, and policies regarding the Federal Government's use and sharing of personally identifiable information.

Furthermore, I am committed to continuing to work closely with the RATB and the GATB to implement these tools and tactics in a coordinated manner, and to continue to find synergies between the GOVerify Business Center and the Recovery Board's efforts, which include both the ROC and FederalAccountability.gov. In line with the GATB's vision for a unified accountability solution, OMB, the RATB, and Treasury have initiated discussions that have provided several promising options for exploring integration of the underlying technology that is currently supporting each of these efforts.

Achieving Real Results

Barely two years after the President's Executive Order on improper payments, the evidence is clear that our efforts are translating into tangible, positive outcomes. When the President took office in 2009, payment error rates were on the rise. Today, through the confluence of the efforts I described above and the diligent work of our partners in Congress, we are on track to meet or

exceed the President's goals to cut improper payments by $50 billion and recapture $2 billion in overpayments to contractors by the end of this fiscal year.

As evidence of this progress, in FY 2011, the government-wide improper payment rate decreased to 4.7 percent, a sharp decrease from the FY 2009 error rate of 5.4 percent.[7] We saw error rate reductions in almost every major program with a history of significant errors—Medicare, Medicaid, the Supplemental Nutrition Assistance Program (formerly known as Food Stamps), Rental Housing, Earned Income Tax Credit, Pell Grants, and Supplemental Security Income. Also, for the first time in six years, the total amount of improper payments that were reported declined from the previous year to a new total of $115 billion, despite the fact that Federal outlays as a whole increased.

By reducing the government-wide improper payment rate since FY 2009, Federal agencies avoided making a significant amount of erroneous payments. If the error rate had not declined, the Government would have made an additional $18 billion in improper payments in FY 2011. Combined with the roughly $3 billion in payment errors avoided in FY 2010, agencies have already avoided making over $20 billion in improper payments.

We also have made significant progress on the President's goal of recapturing $2 billion in improper payments by the end of FY 2012. In FY 2011, Federal agencies recaptured more than $1.2 billion in overpayments to contractors, an increase of over 80 percent compared to FY 2010. This amount includes approximately $460 million recaptured through agency payment recapture audits and $800 million recovered through the Medicare Recovery Audit Contractor program. In total, we have recaptured $1.9 billion in two years combined, putting us less than $100 million away from meeting the President's goal.

Despite these successes, it is clear that we still have a long way to go in addressing improper payments across the Government. This is evidenced by the fact that not all programs reported error-rate decreases in FY 2011. For example, Unemployment Insurance (UI), one of the high-error programs, reported an error rate increase from 11.2 percent to 12 percent. This increase is due in large part to the unprecedented strain on the UI system during the recession. Many state workforce agencies struggled to keep up with increased workloads and were compelled to utilize integrity staff to process claims instead of focusing on improper payments. Nonetheless, States bear the responsibility of operating an efficient and effective benefits program, and the Federal Government must hold the States accountable to ensure the integrity of the UI system and to significantly reduce the improper payment rate. That is why, in September 2011 as part of the Administration's Campaign to Cut Waste, the Vice President and Secretary Solis unveiled a series of new Department of Labor efforts to reduce improper payments in the UI program and hold States accountable for progress.

Moreover, despite the fact that Medicare and Medicaid error rates went down between FYs 2010 and 2011, we are not letting up on our determination to substantially address improper payments in these programs as well. That is why in September 2011, HHS announced its final rule on a new initiative to fight waste in Medicaid, the Medicaid Recovery Audit Contractor Program. This program, created by the Affordable Care Act, is projected to save taxpayers $2.1 billion

[7] See footnote 1.

over the next five years, of which $910 million will be returned to States. The new program is based on the successful Medicare Recovery Audit Contractor program, which has already recaptured $870 million within the last two years. Innovative approaches such as these are essential as we continue to address those programs with high error rates, both in the prevention and recapture of improper payments.

Conclusion

I want to close by emphasizing that this Administration has made combating improper payments within the Federal Government a top priority and we will continue to explore new and innovative ways to reduce, prevent, and recapture improper payments. Improper payments will continue to be a challenge for Federal agencies, but we are proud of the progress we have made so far, and will continue to seek additional ways to address improper payments.

Hopefully, I have given the members of this Subcommittee an understanding of where we are, and where we are headed, to reduce payment errors across the Federal Government. However, our efforts can only go so far. The Congress, the Government Accountability Office, and the agencies' Offices of Inspector General play a critical role in holding agencies accountable for reducing improper payments. By continuing to shed a light on this issue and keeping agencies focused on fixing this problem, I believe we will continue to see real progress. And for our part, the Administration will continue to work through the Campaign to Cut Waste to reinforce a sense of responsibility and accountability for taxpayer dollars and make clear that no amount of waste in our Federal programs is acceptable.

Thank you again for inviting me to testify. I look forward to answering your questions.

Mr. PLATTS. Thank you, Mr. Werfel.
Mr. Wood.

STATEMENT OF MICHAEL WOOD

Mr. WOOD. Thank you, Mr. Chairman, and distinguished members of the committee. Thank you for being able to appear before you today to talk about this important matter and potential solutions to reducing improper payments based on work done by the Recovery Board.

The American Recovery and Reinvestment Act of 2009 created the Recovery Accountability and Transparency Board, tasked in part with preventing fraud, waste and abuse of recovery funds.

Last summer, the President issued an Executive order calling for the creation of the Accountability and Transparency or GAT Board to make recommendations based on lessons learned from the Recovery Act, implementation of the Board's successes applying these approaches across government spending.

At the same time, Congressman Issa and Senator Warner introduced legislation, the DATA Act, that among other things, would create a new, independent agency, the Federal Accountability and Spending Transparency Board, to provide accountability and transparency for federally funded activities.

Even before the creation of the GAT Board and the DATA Act, the Recovery Board realized key lessons: that transparency drives accountability and that the tools we have built for these dual purposes have proved useful from both a program and oversight perspective. Along with Recovery.gov, the Board has received wide acclaim for building our Recovery Operations Center, ROC, which combines traditional law enforcement analysis with sophisticated software tools, government data bases, and open-source information to identify high-risk recipients.

This accountability solution provides an in-depth fraud analysis capability to identify non-obvious relationships between parties, and provides a predictive-analysis model, useful in focusing limited government oversight resources. The Board is now conducting pilots on a fraud prevention tool with agency personnel as well as with the Offices of Inspectors General via the Board's new FederalAccountability.gov Web portal. This framework has the potential to open the ROC tools and approaches more fully to investigators and practitioners throughout the Federal Government.

Our goals are to help agencies in performing their own risk evaluations before awarding Federal funds and to help enforcement officials to conduct reviews in order to prevent and detect fraud, waste and abuse in Federal spending.

Pilots with agency procurement, grant and financial officials just began. With our expanded 2012 appropriations language, Congress provided some flexibility for us to develop and test new applications on non-Recovery funds and we plan on broadening the scope of these pilots.

FastAlert, a new application within the FederalAccountability.gov framework, provides awarding officials with the ability to quickly access risk factors associated with entities that seek or have received Federal funds. The Board feels

FastAlert can be applied to all Federal spending from pre-award to the payment phases.

Our work on FederalAccountability.gov and FastAlert is in keeping with the GAT Board's December report to the President which noted the ROC "has been instrumental in keeping fraudulent actors from attacking Recovery programs, using cutting edge forensic technology to protect taxpayer interests." This technology has applications across the government and that is why the GAT Board recommends that agencies work together to create a centralized framework that leverages the ROC and similar technologies, allowing us to share data and coordinate our efforts to detect and prevent fraud. It is also in keeping, I think, with the internal control guidance established by OMB for improper payments that cited our lessons learned as well and came to a sililar conclusion.

Payments resulting from fraudulent activity are only a subset of the wider problem of improper payments. However, the Board's tools would assist in identifying questionable entities in the preventive pre-award phase, and as a review prior to payment. In consultation with OMB and the Department of Treasury, we have incorporated features like batch searches and program specific data bases to better meet agency needs.

Realizing full implementation of FastAlert is complicated by some common problems that Congress, agencies and executive leaderships must solve. The computer matching provisions of the Privacy Act may restrain oversight activities, a problem that is solved by the DATA Act. True data management also requires that the government standardize data and provide more modern, open access to data bases.

Agencies are often reluctant to share data bases due to fear of violating the Privacy Act, leaving inadequacies in payment and awarding tools. We have the technology and know-how, and with your help, the governance, access, and data issues can be swiftly solved.

That concludes my prepared remarks and I will be happy to answer any questions.

[The prepared statement of Mr. Wood follows:]

TESTIMONY OF MR. MICHAEL WOOD,
EXECUTIVE DIRECTOR, RECOVERY ACCOUNTABILITYAND TRANSPARENCY BOARD
BEFORE THE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT ORGANIZATION, EFFICIENCY AND FINANCIAL MANAGEMENT
UNITED STATES HOUSE OF REPRESENTATIVES
February 7, 2012

Mr. Chairman and members of the Committee, I want to thank you for the opportunity to appear before you today to discuss improper payments made by the Federal Government and potential solutions to reduce these improper payments based on work done by the Recovery Board.

The American Recovery and Reinvestment Act of 2009 created the Recovery Accountability and Transparency Board - tasked in part with preventing fraud, waste and abuse of Recovery funds. Last summer, the President issued an Executive Order calling for the creation of a Government Accountability and Transparency Board, or GAT Board, to make recommendations based on lessons learned from Recovery Act implementation and the Board's successes, applying these approaches across Government spending. At the same time, Congressman Issa and Senator Warner introduced legislation – the DATA Act - that among other things, would create a new independent agency, the Federal Accountability and Spending Transparency Board, to provide accountability and transparency to federally funded activities.

Even before the creation of the GAT Board and the DATA Act, the Recovery Board realized a key lesson, that transparency drives accountability. The tools we built for these dual purposes have proved useful both from a program and an oversight perspective. Along with Recovery.gov, the Board has received wide acclaim for building our Recovery Operations Center, or ROC, which combines traditional law enforcement analysis with sophisticated software tools, government databases, and open-source information to identify high-risk recipients. This accountability solution provides an in-depth fraud analysis capability to identify non-obvious relationships between parties, and provides a predictive-analysis model, useful in focusing limited government oversight resources.

The Board is now conducting pilots on fraud-prevention tools with agency personnel as well as Offices of Inspectors General via the Board's new FederalAccountability.gov web portal. This framework has the potential to open the ROC tools and approaches more fully to investigators and practitioners throughout the Federal government. Our goals are to help agencies in performing their own risk evaluations before awarding Federal funds, and to help enforcement officials conduct reviews in order to prevent and detect fraud, waste, and abuse in Federal spending. Pilots with agency procurement, grant, and financial officials just began. With our expanded 2012 appropriations language, Congress provided some flexibility for us to develop and test new applications on non-Recovery funds and we plan on broadening the scope of those pilots.

FastAlert, a new application within the FederalAccountability.gov framework, provides awarding officials the ability to quickly assess risk factors associated with entities that seek or have received Federal funds. The Board feels that FastAlert can be applied to all federal spending from pre-award to payment phases.

Our work on FederalAccountability.gov and FastAlert is in keeping with the GAT Board's December report to the President, which noted the ROC "has been instrumental in keeping fraudulent actors from attacking Recovery Act programs, using cutting edge forensic technology to protect taxpayer interests. This technology has applications across government, and that is why the GATB recommends that agencies work together to create a centralized framework that leverages the ROC and similar technologies, allowing us to share data and coordinate our efforts to detect and prevent fraud."

Payments resulting from fraudulent activity are only a subset of the wider problem of improper payments. However, the Board's tools would assist in identifying questionable entities in the preventive pre-award phase, and as a review prior to payment. In consulting with the Office of Management and Budget and the Department of Treasury, we have incorporated features like batch searches and program specific databases to better meet agency needs.

Realizing full implementation of FastAlert is complicated by some common problems that Congress, agencies and executive leadership must solve. The computer matching provisions of the Privacy Act may restrain oversight activities; a problem that is solved by the DATA Act. True data management also requires that the government standardize data and provide more modern open access to databases. Agencies are reluctant to share databases, often due to fear of violating the Privacy Act, leaving gaping inadequacies in payment and awarding tools. We have the technology and know-how, and with your help, the governance, access, and data issues can be swiftly solved.

That concludes my prepared remarks and I will be happy to answer any questions you have of me.

Mr. PLATTS. Thank you, Mr. Wood.
Ms. Davis.

STATEMENT OF BERYL DAVIS

Ms. DAVIS. Chairman Platts, Ranking Member Towns and members of the subcommittee, thank you for the opportunity to be here today to discuss improper payments in Federal programs.

My testimony will cover agencies' reported progress in estimating and reducing improper payments, the challenges ahead of us and how to move forward in improper payment reduction strategies. An improper payment is any payment that was made incorrectly, in the wrong amount and includes payments as well as overpayments. Also it includes payments that lack sufficient documentation.

Progress is being reported by Federal agencies in both estimating and reducing improper payments. In fiscal year 2011, Federal agencies estimated improper payments of $115.3 billion, as noted by Chairman Platts, a decrease of $5.3 billion from that of the previous year. This figure is about 4.7 percent of the $2.5 trillion in total spending, as noted by Ranking Member Towns.

The estimate was attributable to 79 programs spread across 17 agencies. The 10 programs with the highest dollar amounts accounted for about $107 billion or 93 percent of the total improper payments. The 10 programs with the highest rates of improper payments had rates that ranged from 11 percent to over 28 percent.

Although progress has been reported, the Federal Government continues to face challenges in determining the full extent in improper payments. Some agencies have not yet reported estimates for their risk assessable programs. In addition, internal control weaknesses continue to exist that heighten the risk of improper payments occurring.

Estimating methodologies need to be developed. For example, there are two DOD programs related to commercial payments where the estimating methodologies are still being developed. For this reason, the programs could not be included in the government-wide estimate for this year.

Given the amount of Federal dollars that are flowing into these risk acceptable programs, it is really critical to enhance our efforts to improve and reduce improper payments. Continuing and expanding activities are needed to move forward in the following three reduction areas. First is identifying and analyzing root cause of improper payments. Second is implementing effective controls that would prevent improper payments in the first place. Third is implementing effective detection controls that would identify and recover improper payments.

Regarding the root causes, identifying and analyzing the root causes of improper payments is key to developing effective, preventive and corrective action plans.

Beginning in fiscal year 2011, agencies were required by the Office of Management and Budget to categorize their root causes into three different categories. We found that only about half of the 79 programs with improper payment estimates were actually using those three root cause categories. Without detailed and specific in-

formation, agencies are really hampered in their ability to take action to prevent and to reduce improper payments.

Regarding preventive controls, strong preventive controls serve as the front line defense against improper payments and many agencies are in the process of implementing those controls. Preventive controls involve a variety of activities such as up-front validation of eligibility through data sharing and a predictive analytic test that can identify patterns of potential risk for fraud.

Addressing program design issues is another preventive strategy. For instance, agencies may explore whether complex and inconsistent program design could actually contribute to improper payments. Effective strategies for reducing improper payments may actually call for streamlining and for redesigning or changing those program requirements.

Finally, regarding detective controls, agencies need effective detective techniques to identify quickly and to recover improper payments that actually result in losses to the government. Recovery auditing such as that used in the Medicare Program is an example of identifying contractor overpayments.

Detection activities play a significant role not only in identifying improper payments but also in determining and highlighting those areas where there is a need to enhance our preventive controls.

Chairman Platts and Ranking Member Towns, that concludes my prepared statement. I would be happy to answer any questions you may have.

[The prepared statement of Ms. Davis follows:]

Highlights of GAO-12-405T, a testimony before the Subcommittee on Government Organization, Efficiency, and Financial Management, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

Over the past decade, GAO has issued numerous reports and testimonies highlighting improper payment issues across the federal government as well as at specific agencies. Fiscal year 2011 marked the eighth year of implementation of the Improper Payments Information Act of 2002 (IPIA), as well as the first year of implementation for the Improper Payments Elimination and Recovery Act of 2010 (IPERA). IPIA requires executive branch agencies to annually identify programs and activities susceptible to significant improper payments, estimate the amount of improper payments for such programs and activities, and report these estimates along with actions taken to reduce them. IPERA, enacted July 22, 2010, amended IPIA and expanded requirements for recovering overpayments across a broad range of federal programs.

This testimony addresses (1) federal agencies' reported progress in estimating and reducing improper payments, (2) remaining challenges in meeting current requirements to estimate and report improper payments and (3) actions that can be taken to move forward with improper payment reduction strategies. This testimony is primarily based on prior GAO reports, including GAO's fiscal year 2011 audit of the Financial Report of the United States Government. The testimony also includes improper payment information recently presented in federal entities' fiscal year 2011 financial reports.

View GAO-12-405T. For more information, contact Beryl H. Davis at (202) 512-2623 or davisbh@gao.gov.

February 7, 2012

IMPROPER PAYMENTS

Moving Forward with Governmentwide Reduction Strategies

What GAO Found

Federal agencies reported an estimated $115.3 billion in improper payments in fiscal year 2011, a decrease of $5.3 billion from the prior year reported estimate of $120.6 billion. The $115.3 billion estimate was attributable to 79 programs spread among 17 agencies. Ten programs accounted for about $107 billion or 93 percent of the total estimated improper payments agencies reported for fiscal year 2011. The reported decrease in fiscal year 2011 was primarily related to three programs—decreases in program outlays for the Department of Labor's Unemployment Insurance program, and decreases in reported error rates for the Earned Income Tax Credit program and the Medicare Advantage program. Further, the Office of Management and Budget reported that agencies recaptured $1.25 billion in improper payments to contractors, vendors, and healthcare providers in fiscal year 2011. Over half of this amount, $797 million, can be attributed to the Medicare Recovery Audit Contractor program which identifies Medicare overpayments and underpayments.

The federal government continues to face challenges in determining the full extent of improper payments. Some agencies have not yet reported estimates for all risk-susceptible programs, such as the Department of Health and Human Services' Temporary Assistance for Needy Families program. Internal control weaknesses continue to exist, heightening the risk of improper payments. Some agencies' estimating methodologies need to be refined. For example, two Department of Defense commercial payment programs were not included in the total governmentwide error rate because the estimation methodologies for these programs were still under development.

A number of actions are under way across government to help advance improper payment reduction goals. These actions and future initiatives will be needed to enhance federal government efforts to reduce improper payments. For example,

- Additional information and analysis on the root causes of improper payment estimates would help agencies target effective corrective actions and implement preventive measures. Although agencies were required to report the root causes of improper payments in three categories beginning in fiscal year 2011, of the 79 programs with improper payment estimates for fiscal year 2011, 42 programs reported the root cause information using the required categories. In addition, because the three categories are general, additional analysis is critical to understanding the root causes.
- Implementing strong preventive controls can help defend against improper payments, increasing public confidence and avoiding the difficult "pay and chase" aspects of recovering improper payments. Preventive controls involve activities such as upfront validation of eligibility using electronic data matching, predictive analytic tests, and training programs. Further, addressing program design issues, such as complex eligibility requirements, may also warrant further consideration.
- Effective detection techniques to quickly identify and recover improper payments are also important to a successful reduction strategy. Detection activities include data mining and recovery audits. Another area for further exploration is the broader use of incentives to encourage and support states in efforts to implement effective preventive and detective controls.

Chairman Platts, Ranking Member Towns, and Members of the Subcommittee:

Thank you for the opportunity to be here today to discuss the issue of improper payments in federal programs and activities, including efforts by federal agencies to identify and reduce improper payments.[1] As the steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees spend hundreds of billions of taxpayer dollars annually, including safeguarding those expenditures against improper payments, and establishing mechanisms to recover those funds when overpayments occur. It is important to note that not all of the reported improper payment estimates represent a loss to the government. For example, errors consisting of insufficient or lack of documentation are included in the improper payment estimates. Over the past decade, we have issued numerous reports and testimonies highlighting improper payment issues across the federal government as well as at specific agencies.[2]

Today, my testimony will focus on:

- federal agencies' reported progress in estimating and reducing improper payments, and
- remaining challenges in meeting current requirements to estimate and report improper payments.

I will also provide observations on actions that can be taken to move forward with improper payment reduction strategies.

[1]It is important to recognize that improper payment estimates reported by federal agencies in fiscal year 2011 are not intended to be an estimate of fraud in federal agencies' programs and activities. An improper payment is defined as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. Office of Management and Budget (OMB) guidance also instructs agencies to report as improper payments any payments for which insufficient or no documentation was found.

[2]See the Related GAO Products list at the end of this statement for a selection of the products related to these issues.

In preparing this statement, we drew upon our previously issued work related to the fiscal year 2011 audit of the Financial Report of the United States Government,[3] as well as our other previously issued products dealing with improper payments. Our previous products are listed at the end of this statement. That work was conducted in accordance with generally accepted government auditing standards. We are also including improper payment information recently presented in federal entities' fiscal year 2011 performance and accountability reports (PAR) and agency financial reports (AFR).

Background

Fiscal year 2011 marked the eighth year of implementation of the Improper Payments Information Act of 2002 (IPIA),[4] as well as the first year of implementation for the Improper Payments Elimination and Recovery Act of 2010 (IPERA).[5] IPIA requires executive branch agencies to annually review all programs and activities to identify those that are susceptible to significant improper payments, estimate the annual amount of improper payments for such programs and activities, and report these estimates along with actions taken to reduce improper payments for programs with estimates that exceed $10 million. IPERA, enacted July 22, 2010, amended IPIA by expanding on the previous requirements for identifying, estimating, and reporting on programs and activities susceptible to significant improper payments and expanding requirements for recovering overpayments across a broad range of federal programs.[6] IPERA included a new, broader requirement for agencies to conduct recovery audits, where cost effective, for each program and activity with at least $1 million in annual program outlays. This IPERA provision significantly lowers the threshold for required recovery audits from $500

[3]U.S. Department of the Treasury, *2011 Financial Report of the United States Government* (Washington, D.C.: Dec. 23, 2011), pp. 211-231.

[4]Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

[5]Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010).

[6]IPERA defines "significant improper payments" as gross annual improper payments in the program exceeding (1) both 2.5 percent of program outlays and $10 million of all program or activity payments during the fiscal year reported or (2) $100 million (regardless of the improper payment error rate). Further, the threshold for "significant improper payments" will be reduced in fiscal year 2014 and each year thereafter to gross annual improper payments in the program exceeding (1) both 1.5 percent of program outlays and $10 million of all program or activity payments during the fiscal year reported or (2) $100 million (regardless of the improper payment error rate).

million[7] to $1 million and expands the scope for recovery audits to all programs and activities. Another new IPERA provision calls for federal agencies' inspectors general to annually determine whether their respective agencies are in compliance with key IPERA requirements and to report on their determinations. Under Office of Management and Budget (OMB) implementing guidance, these reports are required to be completed within 120 days of the publication of the federal agencies' annual PAR or AFR, with the fiscal year 2011 reports for most agencies due on March 15, 2012.

OMB continues to play a key role in the oversight of the governmentwide improper payments problem. OMB has established guidance for federal agencies on reporting, reducing, and recovering improper payments[8] and has established various work groups responsible for developing recommendations aimed at improving federal financial management activities related to reducing improper payments.

[7]Section 831 of the National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, div. A, 115 Stat. 1012, 1186 (Dec. 28, 2001), required that agencies that enter into contracts with a total value in excess of $500 million in a fiscal year carry out a cost-effective program for identifying and recovering amounts erroneously paid to contractors. IPERA repealed these requirements.

[8]OMB, Circular No. A-136 Revised, *Financial Reporting Requirements* (Oct. 27, 2011); OMB Memorandum M-11-16, *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123* (Apr. 14, 2011); OMB Memorandum M-11-04, *Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits* (Nov. 16, 2010); and OMB Memorandum M-10-13, *Issuance of Part III to OMB Circular A-123, Appendix. C* (Mar. 22, 2010).

OMB and Agencies Reported Progress in Estimating and Reducing Improper Payments

Federal agencies reported improper payment estimates totaling $115.3 billion in fiscal year 2011, a decrease of $5.3 billion from the revised prior year reported estimate of $120.6 billion.[9] Based on the agencies' estimates, OMB estimated that fiscal year 2011 improper payments comprised about 4.7 percent of the $2.5 trillion in total spending during that year for the agencies' related programs (i.e., a 4.7 percent error rate). The decrease in the fiscal year 2011 estimate is attributed primarily to decreases in program outlays for the Department of Labor's Unemployment Insurance program, and decreases in reported error rates for fiscal year 2011 (compared to fiscal year 2010) for the Department of the Treasury's (Treasury) Earned Income Tax Credit program and the Department of Health and Human Services' (HHS) Medicare Advantage program.

The $115.3 billion in estimated federal improper payments reported for fiscal year 2011 was attributable to 79 programs spread among 17 agencies. Ten of these 79 programs account for most of the $115.3 billion of reported improper payments. Specifically, as shown in table 1, these 10 programs accounted for about $107 billion or 93 percent of the total estimated improper payments agencies reported for fiscal year 2011.

[9]In their fiscal year 2011 PARs and AFRs, select federal entities updated their fiscal year 2010 improper payment estimates to reflect changes since issuance of their fiscal year 2010 reports. These updates decreased the governmentwide improper payment estimate for fiscal year 2010 from $125.4 billion to $120.6 billion. Estimated improper payment amounts for fiscal years 2011 and 2010 may include estimates based on prior years' data, if current reporting year data were not available, as allowed by OMB guidance.

Table 1: Improper Payment Dollar Estimates: 10 Programs with the Highest Reported Amounts in Fiscal Year 2011

Program	Agency	Reported improper payment estimates		Reported primary cause(s)
		Dollars (in billions)	Error rate (percentages)	
Medicare Fee-for-Service	Health and Human Services	$28.8	8.6%	Medically unnecessary services and insufficient documentation
Medicaid	Health and Human Services	$21.9	8.1%	Ineligible or indeterminable eligibility status for Medicaid beneficiaries
Earned Income Tax Credit	Treasury	$15.2	23.5%	Complexity of the tax law, structure of the program, confusion among eligible claimants, high turnover of eligible claimants, and unscrupulous return preparers
Unemployment Insurance	Labor	$13.7	12.0%	Overpayments to claimants who continue to claim benefits after they return to work, ineligibility, and claimants who failed to meet active work search requirements
Medicare Advantage	Health and Human Services	$12.4	11.0%	Insufficient documentation, errors in the transfer and interpretation of data, and payment calculations
Supplemental Security Income	Social Security Administration	$4.6	9.1%	Recipients failed to provide accurate and timely reports of new or increased wages
Old Age Survivors' and Disability Insurance	Social Security Administration	$4.5	0.6%	Computation errors, eligibility errors, non-verification of earnings, and incorrect processing of applications or payments
Supplemental Nutrition Assistance	Agriculture	$2.5	3.8%	Incomplete or inaccurate reporting of income by participant and incorrect eligibility determination by caseworkers
National School Lunch	Agriculture	$1.7	16.0%	Verification errors related to benefit calculation error, duplicate payments, insufficient documentation, and fraud or misrepresentation by program participants or others
Medicare Prescription Drug Benefit	Health and Human Services	$1.7	3.2%	Payment errors, payment adjustment errors, and complexity of program

Source: GAO summary of agencies' data.

The 10 programs with the highest error rates had rates ranging from 11.0 percent to 28.4 percent. Specifically, as shown in table 2, those 10 programs accounted for $45 billion, or 39 percent of the total estimated improper payments for fiscal year 2011.

Table 2: Improper Payment Error Rates: 10 Programs with the Highest Reported Rates in Fiscal Year 2011

Program	Agency	Reported improper payment estimates		Reported primary cause(s)
		Error rate (percentages)	Dollars (in millions)	
Disaster Assistance Loans	Small Business Administration	28.4%	$96.3	Loan documentation errors
School Breakfast	Agriculture	25.0%	$705.0	Authentication and administrative errors, including authenticating the accuracy of qualifying for program specific requirements, criteria, or conditions.
Earned Income Tax Credit	Treasury	23.5%	$15,200.0	Complexity of the tax law, structure of the program, confusion among eligible claimants, high turnover of eligible claimants, and unscrupulous return preparers
National School Lunch	Agriculture	16.0%	$1,716.0	Verification errors related to benefit calculation error, duplicate payments, insufficient documentation, and fraud or misrepresentation by program participants or others
State Home Per Diem Grants	Veterans Affairs	13.7%	$97.6	Documentation and administrative errors related to ineligible recipients, noncompliance with policies and procedures, incorrect amounts, ineligible goods, and lack of documentation
Supplies and Materials	Veterans Affairs	13.6%	$221.1	Documentation and administrative errors related to noncompliance with policies and procedures, lack of documentation, ineligible goods, incorrect amounts, and discounts not taken
Non-VA Care Fee	Veterans Affairs	12.4%	$522.9	Verification and documentation and administrative errors related to incorrect application of payment methodologies, lack of documentation, lack of authorization, and data entry errors
Unemployment Insurance	Labor	12.0%	$13,697.0	Overpayments to claimants who continue to claim benefits after they return to work, ineligibility, and claimants who failed to meet active work search requirements
Child Care and Development Fund	Health and Human Services	11.2%	$638.0	Documentation and administrative errors due to missing or insufficient documentation
Medicare Advantage	Health and Human Services	11.0%	$12,390.0	Insufficient documentation, errors in the transfer and interpretation of data, and payment calculations

Source: GAO summary of agencies' data.

Since the implementation of IPIA in 2004, federal agencies have continued to identify new programs or activities as risk-susceptible and report estimated improper payment amounts. The fiscal year 2011 governmentwide estimate of $115.3 billion included improper payment estimates for nine additional programs that did not report an estimate in fiscal year 2010, with the HHS Medicare Prescription Drug Benefit (Part D) program having the highest estimate of the newly included programs. We view these agencies' efforts as a positive step towards increasing the transparency of the magnitude of improper payments. However, three additional programs providing estimates in fiscal year 2011 were not included in the governmentwide totals because their estimation methodologies were still under development. The three excluded programs were the: Department of Education's Direct Loan, Department of Defense's (DOD) Defense Finance and Accounting Service Commercial Pay, and DOD's Army Corps of Engineers Commercial Pay.

A number of federal agencies have reported progress in reducing improper payment error rates in some programs and activities. For example, we identified 40 federal agency programs, or about 50 percent of the total programs reporting improper payment estimates in fiscal year 2011, that reported a reduction in the error rate of estimated improper payments in fiscal year 2011 when compared to fiscal year 2010 error rates. We caution, however, that these rates have not been independently verified or audited. The following are examples of agencies that reported reductions in program error rates and estimated improper payment amounts (along with corrective actions to reduce improper payments) in their fiscal year 2011 PARs, AFRs, or annual reports.

- Treasury reported that the fiscal year 2011 Earned Income Tax Credit (EITC) program's estimated improper payment amount decreased from the fiscal year 2010 amount of $16.9 billion to $15.2 billion, which represented a decrease in the error rate from 26.3 percent to 23.5 percent. Treasury reported that corrective actions taken to reduce improper payments primarily focused on completing examinations on tax returns that claimed the EITC before issuing the EITC portion of the refund, identifying math or other statistical irregularities in taxpayer returns, and comparing income information provided by the taxpayer with matching information from employers to identify discrepancies.

- HHS reported that the fiscal year 2011 estimated improper payment amount for the Medicare Advantage (Part C) program decreased from the fiscal year 2010 reported amount of $13.6 billion to $12.4 billion,

which represented a decrease in the error rate from 14.1 percent to 11.0 percent. HHS reported that it reduced payment errors by continuing to routinely implement controls in its payment system to ensure accurate and timely payments, and implementing three key initiatives, including contract level audits, physician outreach, and Medicare Advantage organization guidance and training.

In addition, agencies have further developed the use of recovery audits to recapture improper payments. In 2010, the President set goals, as part of the Accountable Government Initiative, for federal agencies to reduce overall improper payments by $50 billion, and recapture at least $2 billion in improper contract payments and overpayments to healthcare providers, by the end of fiscal year 2012. For fiscal year 2011, OMB reported that governmentwide agencies recaptured $1.25 billion in overpayments to contractors and vendors. Over half of this amount, $797 million, can be attributed to the Medicare recovery audit contractor program which identifies improper Medicare payments—both overpayments and underpayments—in all 50 states. Cumulatively, OMB reported $1.9 billion recaptured from overpayments to contractors, vendors, and healthcare providers for fiscal years 2010 and 2011 towards the President's goal of recapturing at least $2 billion by the end of fiscal year 2012.

Remaining Challenges in Complete and Accurate Reporting of Improper Payments

Despite reported progress in reducing estimated improper payment amounts and error rates for some programs and activities during fiscal year 2011, the federal government continues to face challenges in determining the full extent of improper payments. Specifically, some agencies have not yet reported estimates for all risk-susceptible programs and some agencies' estimating methodologies need to be refined. We have also found that internal control weaknesses exist, heightening the risk of improper payments occurring. Until federal agencies are able to implement effective processes to completely and accurately identify the full extent of improper payments and implement appropriate corrective actions to effectively reduce improper payments, the federal government will not have reasonable assurance that the use of taxpayer funds is adequately safeguarded. We are currently working on engagements related to improper payment reporting at both DOD and HHS. Furthermore, as I will discuss later in this statement, additional analysis is needed to assess the root causes of improper payments, a key factor in identifying and implementing effective corrective actions.

We found that not all agencies have developed improper payment estimates for all of the programs and activities they identified as susceptible to significant improper payments. Specifically, three federal entities did not report fiscal year 2011 estimated improper payment amounts for four risk-susceptible programs.[10] In one example, HHS's fiscal year 2011 reporting cited various statutory barriers that hindered it from reporting improper payment estimated amounts. HHS cited statutory limitations for its state-administered Temporary Assistance for Needy Families (TANF) program,[11] which prohibited it from requiring states to participate in developing an improper payment estimate for the TANF program. Despite these limitations, HHS officials stated that they will continue to work with states and explore options to allow for future estimates for the program. For fiscal year 2011, the TANF program reported outlays of about $17 billion. For another program, HHS cited the Children's Health Insurance Program Reauthorization Act of 2009[12] as prohibiting HHS from calculating or publishing any national or state-specific payment error rates for the Children's Health Insurance Program (CHIP) until 6 months after the new payment error rate measurement rule became effective on September 10, 2010. According to its fiscal year 2011 agency financial report, HHS plans to report estimated improper payment amounts for CHIP in fiscal year 2012. For fiscal year 2011, the CHIP program reported federal outlays of about $9 billion.

As previously discussed, OMB excluded estimated improper payment amounts for two DOD programs from the governmentwide total because those programs were still developing their estimating methodologies—Defense Finance and Accounting Service (DFAS) Commercial Pay[13] with fiscal year 2011 outlays of $368.5 billion and U.S. Army Corps of Engineers Commercial Pay with fiscal year 2011 outlays of $30.5 billion.

[10]The four risk-susceptible programs that did not report a required improper payments estimate for fiscal year 2011 were the Department of Education's Federal Family Education Loan, Federal Communications Commission's Interstate Telecommunications Relay Services Fund, and HHS's Children's Health Insurance Program and Temporary Assistance for Needy Families.

[11]The term state-administered refers to federal programs that are managed on a day-to-day basis at the state level to carry out program objectives.

[12]Pub. L. No. 111-3, 123 Stat. 8 (Feb. 4, 2009).

[13]DOD refers to payments to contractors and vendors collectively as commercial payments.

In DOD's fiscal year 2011 agency financial report, DOD reported that improper payment estimates for these programs were based on improper payments detected through various pre-payment and post-payment review processes rather than using methodologies similar to those used for DOD's other programs, including statistically valid random sampling or reviewing 100 percent of payments. In its fiscal year 2011 agency financial report, DOD stated that it plans to begin statistical sampling of the Commercial Pay program in fiscal year 2012.

Both GAO[14] and the DOD Inspector General (IG)[15] have previously reported on weaknesses in DOD's payment controls, including weaknesses in its process for assessing the risk of improper payments and reporting estimated amounts. DOD's payment controls are hindered by problems related to inadequate payment processing, poor financial systems, and inadequate supporting documentation. Nonetheless, the DOD Comptroller testified in May 2011 that DOD assessed its commercial payment program as low risk because DOD management has concluded that it had a highly effective pre-payment examination process. That process includes a software tool that tests for potential improper payments before disbursement.[16] However, the DOD IG has reported[17] that the tool had a false positive[18] rate of more than 95 percent and that its use was not standardized across payment systems. Additionally, the DOD IG reported that DOD's risk of making improper payments was high and identified deficiencies in DOD's estimate of high-dollar overpayments that caused it to underreport the amount of improper

[14]GAO, *DOD Financial Management: Weaknesses in Controls over the Use of Public Funds and Related Improper Payments*, GAO-11-950T (Washington, D.C.: Sept. 22, 2011) and *Improper Payments: Significant Improvements Needed in DOD's Efforts to Address Improper Payment and Recovery Auditing Requirements*, GAO-09-442 (Washington, D.C.: July 29, 2009).

[15]DOD, Inspector General, *DOD Needs to Improve High Dollar Overpayment Review and Reporting*, D-2011-050 (Arlington, Va.: Mar. 16, 2011).

[16]DOD, *Statement of The Honorable Robert F. Hale, Under Secretary of Defense (Comptroller) before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate* (Washington, D.C.: May 25, 2011).

[17]D-2011-050.

[18]A false positive is a payment flagged as a potential improper payment that, after review, is determined to be proper.

payments made.[19] Until DOD fully and effectively implements a statistically valid estimating process for its commercial payments and addresses the known control deficiencies in its commercial payment processes, the governmentwide improper payment estimates are not complete.

For fiscal year 2011, two agency auditors reported on compliance issues with IPIA and IPERA as part of their 2011 financial statement audits. Specifically, the Department of Agriculture (USDA) auditors identified noncompliance with the requirements of IPERA regarding the design of program internal controls related to improper payments. In the other noncompliance issue, while HHS estimated an annual amount of improper payments for some of its risk-susceptible programs, a key requirement of IPIA, it did not report an improper payment estimate for its TANF and CHIP programs for fiscal year 2011. Fiscal year 2011 marked the eighth consecutive year that auditors for HHS reported noncompliance issues with IPIA.

Current and Future Actions to Move Forward with Improper Payment Reduction Strategies

A number of actions are under way across the federal government to help advance improper payment reduction goals. These initiatives, as well as additional actions in the future, will be needed to advance the federal government efforts to reduce improper payments. Identifying and analyzing the root causes of improper payments is key to developing effective corrective actions and implementing the controls needed to advance the federal government's efforts to reduce and prevent improper payments. In this regard, implementing strong preventive controls can serve as the front-line defense against improper payments. Proactively preventing improper payments increases public confidence in the administration of benefit programs and avoids the difficulties associated with the "pay and chase"[20] aspects of recovering overpayments. For example, addressing program design issues that are a factor in causing improper payments may be an effective preventive strategy to be

[19]D-2011-050. The IG report stated that DFAS and the Army Corps of Engineers did not review all payment systems for high-dollar overpayments. DFAS did not review approximately $2.2 billion in payments from five entitlement systems and the Corps of Engineers did not complete a timely review of $7.3 billion of commercial payments.

[20]"Pay and chase" refers to the labor-intensive and time-consuming practice of trying to recover overpayments once they have already been made rather than preventing improper payments in the first place.

considered. Effective monitoring and reporting can also help detect emerging issues. In addition, agencies can also enhance detective controls to identify and recover overpayments. For instance, enhancing incentives for grantees, such as state and local governments, could help increase attention to preventing, identifying, and recovering improper payments.

Identifying and Analyzing Root Causes of Improper Payments

Agencies cited a number of causes for the estimated $115.3 billion in reported improper payments, including insufficient documentation; incorrect computations; changes in program requirements; and, in some cases, fraud. Beginning in fiscal year 2011, according to OMB's guidance,[21] agencies were required to classify the root causes of estimated improper payments into three general categories for reporting purposes: (1) documentation and administrative errors, (2) authentication and medical necessity errors, and (3) verification errors.[22] Information on the root causes of the current improper payment estimates is necessary for agencies to target effective corrective actions and implement preventive measures.

While agencies generally reported some description of the causes of improper payments for their respective programs in their fiscal year 2011 reports, many agencies did not use the three categories to classify the types of errors and quantify how many errors can be attributed to that category. Of the 79 programs with improper payment estimates in fiscal

[21]OMB, Circular No. A-136 Revised, *Financial Reporting Requirements* (October 27, 2011) and OMB Memorandum M-10-13, *Issuance of Part III to OMB Circular A-123, Appendix C* (Mar. 22, 2010).

[22]OMB defines these error types as: *Documentation and Administrative Errors* - Errors caused by the absence of supporting documentation necessary to verify the accuracy of a payment or errors caused by incorrect inputting, classifying, or processing of applications or payments by a relevant Federal agency, State agency, or third party who is not the beneficiary; *Authentication and Medical Necessity Errors* - Errors caused by an inability to authenticate eligibility criteria through third-party databases or other resources because no databases or other resources exist, or providing a service that was not medically necessary given the patient's condition; and *Verification Errors* - Errors caused by the failure or inability to verify recipient information, including earnings, income, assets, or work status, even though verifying information does exist in third-party databases or other resources (in this situation, as contrasted with "authentication" errors, the "inability" to verify may arise due to legal or other restrictions that effectively deny access to an existing database or resource), or errors due to beneficiaries failing to report correct information to an agency.

year 2011, we found that agencies reported the root causes information using the required categories for 42 programs in their fiscal year 2011 PARs and AFRs. Together, these programs represented about $46 billion, or 40 percent of the total reported $115 billion in improper payment estimates for fiscal year 2011. Of the $46 billion, the estimated improper payment amounts were spread across the three categories, with documentation and administrative errors being cited most often. We did not calculate the dollar amounts in each category due to the imprecise narratives included in some of the agencies' reporting of identified causes, which would have required more detailed information and/or detailed examination of the underlying data. Nonetheless, additional analysis regarding the root causes is needed in order to identify and implement effective corrective and preventive actions in the various programs.

Implementing Effective Preventive Controls to Avoid Improper Payments

Many agencies and programs are in the process of implementing preventive controls to avoid improper payments, including overpayments and underpayments. Preventive controls may involve a variety of activities such as upfront validation of eligibility, predictive analytic tests, training programs, and timely resolution of audit findings. Further, addressing program design issues that are a factor in causing improper payments may be an effective preventive strategy to be considered.

Upfront eligibility validation through data sharing. Data sharing allows entities that make payments—to contractors, vendors, participants in benefit programs, and others—to compare information from different sources to help ensure that payments are appropriate. When effectively implemented, data sharing can be particularly useful in confirming initial or continuing eligibility of participants in benefit programs and in identifying improper payments that have already been made. Analyses and reporting on the extent to which agencies are participating in data sharing activities, and additional data sharing efforts that agencies are currently pursuing or would like to pursue is another important element needed to advance the federal government's efforts to reduce improper payments.

For example, the Department of Labor (Labor) reported that its Unemployment Insurance Program utilizes HHS's National Directory of

New Hires Database[23] to improve the ability to detect overpayments due to individuals who claim benefits after returning to work—the largest single cause of overpayments reported in the program. In June 2011, Labor established the mandatory use of the database for state benefit payment control no later than December 2011. Labor also issued a program letter that included recommended operating procedures for cross-matching activity for National and State Directories of New Hires.

In another case, to address the issue of inaccuracy of self-reported financial income on applications for student aid, the Department of Education (Education), in conjunction with the Internal Revenue Service (IRS), implemented a 6-month pilot version of an IRS data retrieval tool in January 2010 for its Pell Grant Program. The tool allows student aid applicants and, as needed, parents of applicants, to transfer certain tax return information from the IRS directly to Education's online application. Education reported that nearly 3.5 million students used the data exchange tool, representing approximately 21 percent of the applications submitted for the 2011 - 2012 academic year.

Predictive analytic technologies. The analytic technologies used by HHS's Centers for Medicare and Medicaid Services (CMS) are examples of preventive techniques that may be useful for other programs to consider. The Small Business Jobs Act of 2010 requires CMS to use predictive modeling and other analytic techniques—known as predictive analytic technologies—both to identify and to prevent improper payments under the Medicare fee-for-service program.[24] These predictive analytic technologies will be used to analyze and identify Medicare provider networks, billing patterns, and beneficiary utilization patterns and detect those that represent a high risk of fraudulent activity. Through such analysis, unusual or suspicious patterns or abnormalities can be identified and used to prioritize additional review of suspicious transactions before payment is made. The legislation required that contractors selected begin using these technologies on July 1, 2011, in the 10 states identified by CMS as having the highest risk of fraud, waste, or abuse in Medicare fee-for-service payments. Rather than focusing on the 10 states, CMS

[23]The National Directory of New Hires database, maintained by HHS, contains information on all newly hired employees, quarterly wage reports for all employees, and unemployment insurance claims nationwide.

[24]Pub. L. No. 111-240, § 4241, 124 Stat. 2504, 2599 (Sept. 27, 2010).

contractors began using these technologies to screen all fee-for-service claims nationwide prior to payment as of June 30, 2011, through CMS's new Fraud Prevention System.

Training programs for providers, staff, and beneficiaries. Training can be a key element in any effort to prevent improper payments from occurring. This can include both training staff on how to prevent and detect improper payments and training providers or beneficiaries on program requirements. For example, the Medicaid Integrity Institute, an initiative of CMS's Medicaid Integrity Group (MIG), trains state-level staff and facilitates networking by sponsoring free workshops for states. In addition, the MIG sponsors education programs for providers and beneficiaries, such as for pharmacy providers, to promote best prescribing practices and appropriate prescribing guidelines based on Food and Drug Administration labeling, potentially reducing improper payments.[25]

Timely resolution of audit findings. *Standards for Internal Control in the Federal Government*[26] requires that the findings of audits and other reviews be promptly resolved. Managers are to (1) evaluate findings from audits and other reviews promptly, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations; (2) determine proper actions in response to findings and recommendations from audits and reviews; and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

Program design review and refinement. To the extent that provider enrollment and eligibility verification problems are identified as a significant root cause in a specific program, agencies may look to establish enhanced controls in this area. For example, CMS has taken steps to strengthen standards and procedures for Medicare provider enrollment to help reduce the risk of providers intent on defrauding or abusing the program.[27] Further, exploring whether certain complex and/or

[25]GAO, *Medicaid Program Integrity: Expanded Federal Role Presents Challenges to and Opportunities for Assisting States,* GAO-12-288T (Washington D.C.: Dec. 7, 2011).

[26]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C: Nov. 1999).

[27]GAO, *Improper Payments: Reported Medicare Estimates and Key Remediation Strategies*, GAO-11-842T (Washington, D.C.: July 28, 2011).

inconsistent program requirements, such as eligibility criteria and requirements for provider enrollment, contribute to improper payments would lend insight to developing effective strategies for enhancing compliance and may identify opportunities for streamlining or changing eligibility or other program requirements.

Implement Effective Detective Controls to Identify and Recover Overpayments

Although strong preventive controls remain the frontline defense against improper payments, agencies also need effective detection techniques to quickly identify and recover those overpayments that do occur. Detection activities play a significant role not only in identifying improper payments, but also in providing data on why these payments were made and, in turn, highlighting areas that need strengthened prevention controls. The following are examples of key detection techniques to be considered.

- Data mining. Data mining is a computer-based control activity that analyzes diverse data for relationships that have not previously been discovered. The central repository of data commonly used to perform data mining is called a data warehouse. Data warehouses store tables of historical and current information that are logically grouped. As a tool in managing improper payments, applying data mining to a data warehouse allows an organization to efficiently query the system to identify potential improper payments, such as multiple payments for an individual invoice to an individual recipient on a certain date, or to the same address. For example, in the Medicare and Medicaid program, data on claims are stored in geographically disbursed systems and databases and are not readily available to CMS's program integrity analysts. CMS has been working for most of the past decade to consolidate program integrity data and analytical tools for detecting fraud, waste, and abuse. The agency's efforts led to the initiation of the Integrated Data Repository (IDR) program, which is intended to provide CMS and its program integrity contractors with a centralized source that contains Medicaid and Medicare data from the many disparate and dispersed legacy systems and databases. CMS subsequently developed the One Program Integrity (One PI) program,[28] a web-based portal and set of analytical tools by which

[28]The One PI portal is a web-based user interface that enables a single log-in through centralized, role-based access to the system.

these data can be accessed and analyzed to help identify cases of fraud, waste, and abuse based on patterns of paid claims.[29]

- Recovery auditing. While internal control should be maintained to help prevent improper payments, recovery auditing is used to identify and recover overpayments. The Tax Relief and Health Care Act of 2006 required CMS to implement a national Medicare recovery audit contractor (RAC) program by January 1, 2010.[30] In fiscal year 2011, HHS reported that the Medicare Fee-for-Service recovery audit program identified $961 million in overpayments and recovered $797 million nationwide. Further, the Medicaid RAC program was established by the Patient Protection and Affordable Care Act.[31] Each state must contract with a RAC, which is tasked with identifying and recovering Medicaid overpayments and identifying underpayments. The final regulations indicated that state Medicaid RACs were to be implemented by January 1, 2012. Similar to the Medicare RACs, Medicaid RACs will be paid on a contingency fee basis—a percentage of any recovered overpayments plus incentive payments for the detection of underpayments.

  It is important to note that some agencies have reported statutory or regulatory barriers that affect their ability to pursue recovery auditing. For example, in fiscal year 2011, the Office of Personnel Management (OPM) reported that it faces regulatory barriers that restrict its ability to recover overpayments for its Retirement Program. OPM reported that based on current law and Treasury's regulations, financial institutions are barred from providing OPM with the information necessary to recover various overpayments. Only the Social Security Administration, Railroad Retirement Board, and the Department of Veterans' Affairs may receive the information necessary to identify the withdrawer to attempt to recover the overpayments because those agencies are the only ones named in the law to receive that type of information from financial institutions. According to OPM, Treasury

[29]We reported in July 2011 that IDR includes most types of Medicare claims data, but not the Medicaid data needed to help analysts detect improper payments of Medicaid claims. See *Fraud Detection Systems: Centers for Medicare and Medicaid Needs to Ensure More Widespread Use*, GAO-11-475 (Washington D.C.: July 12, 2011).

[30]Pub. L. No. 109-432, div B., title III, § 302, 120 Stat. 2922, 2991-92 (Dec. 20, 2006), *codified* at 42 U.S.C. § 1395ddd(h).

[31]Pub. L. No. 111-148, §6411, 124 Stat. 119, 773 (Mar. 23, 2010).

has drafted language to address the issue and is working to publish a notice of proposed rulemaking to amend its regulation.

In another instance, USDA reported that Section 281 of the Department of Agriculture Reorganization Act of 1994[32] precluded the use of recovery auditing techniques because Section 281 provides that 90 days after the decision of a state, county, or an area committee is final, no action may be taken to recover the amounts found to have been erroneously disbursed as a result of the decision unless the participant had reason to believe that the decision was erroneous. This statute is commonly referred to as the Finality Rule.

- Federal-state incentives. Another area for further exploration is the broader use of incentives for states to implement effective preventive and detective controls.[33] Agencies have applied limited incentives and penalties for encouraging improved state administration to reduce improper payments. Incentives and penalties can be helpful to create management reform and to ensure adherence to performance standards.

Chairman Platts and Ranking Member Towns, this completes my prepared statement. I would be happy to respond to any questions that you or other members of the subcommittee may have at this time.

[32]Pub. L. No. 103-354, § 281, 108 Stat. 3178, 3233 (Oct. 13, 1994), *codified, as amended, at* 7 U.S.C. § 7001.

[33]OMB's implementing guidance for IPERA allows agencies to use up to 25 percent of funds recovered under a payment recapture audit program, including providing a portion of funding to state and local governments.

Mr. PLATTS. Thank you, Ms. Davis.

We will go to questions. We are glad to be joined by the gentleman from Virginia, Mr. Connolly. Before we go to questions, did you want to make a brief statement?

Mr. CONNOLLY. Mr. Chairman, I thank you so much for your indulgence. I have two other hearings at the same time and I am the ranking member on one of them.

I wanted to come because first of all, I wanted to thank you for your leadership and yours, Mr. Towns, on this important subject.

Here we were sweating in the so-called Super Committee to try to identify $1.2 trillion over 10 years. Here we have improper payments that are $125 billion plus every year which would exceed actually the goal of the Super Committee if somehow we could get it to zero.

We are never going to get it to zero but it seems to me that one of our goals in this subcommittee and in pursuing this subject is how do we put in place processes that push us toward that goal and in doing so, we make a very substantial contribution to debt reduction and to getting our Federal spending under control without having to take a meat ax to substantive investments that matter to the country.

I think this is one of the most promising endeavors of the entire committee, Mr. Chairman, and I thank you again for your leadership. I thank our panelists for being here.

Please forgive me when I have to duck out to return to my primary subcommittee.

Mr. PLATTS. We appreciate the gentleman making an effort to be here and his words regarding this issue and as we conveyed to Senator Carper in his testimony, the bicameral, bipartisan effort to focus on this issue. As you well stated, if we were successful, we would more than exceed the $1.2 trillion that we were after in the Super Committee.

I will yield myself 5 minutes now for questions.

I certainly thank each of you for what you are doing every day to help prevent improper payments as well as the overall good fiscal management of government. I do want to acknowledge very much so the efforts of this administration and the number of initiatives. Mr. Werfel, you highlighted them well.

I do want to caution in how we use numbers and statistics when we talk about $20 billion toward a $50 billion goal. That is a guesstimate because the percent went down that therefore, we avoided $20 billion. We really do not know if we did or not; we are just applying 5.4 percent in 2009 to today at 4.7 and perhaps we saved. We don't really know for certain if that is an accurate number.

Because if we take that approach we would also have to acknowledge that we also know that improper payments that have not been identified went up with DOD being the biggest culprit here of not being able to properly identify improper payments. Their budget is higher today than it was in 2009, therefore there is more money that is not being properly identified to prevent improper payments.

That is just a caution but it is a specific concern as we look at the numbers because they do give us guidance of are we having success, taking strides in the right direction and specifically with the Department of Health and Human Services. The biggest chal-

lenges are Medicare and Medicaid. As we have heard, about half or a little over half of all improper payments identified are those programs in that department.

It is my understanding that there has been a change in the methodology and what they consider an improper payment within the Department of Health and Human Services and specifically that if they identify an improper payment and recover it, then it is not counted as improper payment because they actually got the money or prevented it in some way.

Is that your understanding and your thoughts on that if that is the case?

Mr. WERFEL. Thank you for the question, Mr. Chairman.

Actually, the HHS methodology fix is as follows. They determined there is a paperwork process they go through once they sample a payment to determine whether it was accurate or not. All that paperwork doesn't come in all at the same time; it takes time to investigate the accuracy of the payment. What happens is at the point in time at which they have to put down their pencils and do their error measurement, they still have paperwork outstanding and they haven't fully addressed whether the error is an error or not.

Historically, for any area where they had to put down their pencils because they were out of time and it was time to do their annual report, they counted everything that they didn't get full paperwork as an error. They have been looking at this for a few years. In consultation with their Inspector General, they thought perhaps we are over stating our errors by doing this because they started looking at historical numbers.

They put their pencils down on say November 15th so they can issue their audit report. On December 1st or December 15th, the paperwork comes in and they get the answer in full in terms of whether the error was an error or not. They determined they could go back and look at historical records and say based on historical records, there is a certain percentage of that paperwork over time that actually comes in and is not an error versus it is an error.

They decided what was a more fair presentation of their error was to adjust their error rate based on historical numbers that dictate say we have 10 paperwork that is outstanding, historically three of those are errors and seven of those turn out to be accurate. That is true for a year so we are going to apply that percentage for the paperwork outstanding this year for the error. That is the change they made.

Believe me, Mr. Chairman, we would not have been comfortable with the change if the Inspector General had not endorsed it. The Inspector General agreed that it was a fair presentation. That is why the change was made.

Mr. PLATTS. There is nothing where even if they identify something up front, a question where they put their pencil down, but if they identify a payment that was made improperly, that they recovered it, that it is no longer counted as an improper payment, you are not aware?

Mr. WERFEL. I am not aware of that. There are certain isolated incidences that I am aware of where an agency makes a payment and can subsequently discount their error rate by a quick recapture

of that amount. That takes place, for example, in social security and in many ways, we allow that within the methodology because under the law and regulations, they are compelled to make the payment even when they know it is wrong because the due process hasn't been complete.

For those where they know they are about to make a payment they believe is an error but they are compelled to, then they can get the due process done and quickly pull it back, we have discounted those. I am not aware of this situation occurring in HHS.

Mr. PLATTS. I am hoping that is accurate across the board because that would defeat our goal here which is to identify why we are making improper payments because ultimately that is how we prevent them in the future.

A second question before I yield. I am certainly glad with Part D now being part of the analysis, the first year that the Prescription Drug Program is now being looked at, but CHIP and TANF are two that are not. I know there are two issues here. With TANF, it is State partners and more challenging and with CHIP, it is statutory of when they can start looking at error rates.

If you or other witnesses could comment on what we should expect with TANF and CHIP? Is there a guesstimate of what their error rates are likely to be? What is that going to do to the numbers? May be we can't because we don't have good enough data, but if any of you could comment, that would be helpful.

Mr. WERFEL. There are different data points that we could possibly share with you. I am not sure I have them at my fingertips where the agency, in particular on TANF, has gone out and done a measurement. With TANF, there are a lot of legal questions that have not yet been resolved in terms of the ability of HHS, when the program converted from AFDC to TANF, there were certain alleged restrictions placed on what the agency could do to audit payments.

As a result, I think it was about 5 or 6 years ago, the IG used its enforcement and investigative authority to go downward and the measurement themselves, which is unusual. Typically in all the situations of which I am aware, the agency does the measurement and the IG evaluates the sufficiency of the measurement and whether the necessary corrective actions are taking place.

Because the IG went ahead and did that, we got some insight into some of the error. I think they did an error measurement in about three States, so yes, we found there were significant errors in TANF when that study was done. There were very, very important perspectives that were coming from the State government challenging the HHS IG methodology.

There is a lot to sort through there but I agree completely that until we have a measurement on TANF, our overall measurement is incomplete. I just don't know that we, without Congress' help, have a path forward on that particular program.

Mr. PLATTS. I think that is an important point. As you and the IGs work through that issue, if there is a legislative barrier we need to take a look at, we welcome that information on how to partner with you.

Mr. Wood or Ms. Davis.

Mr. WOOD. No.

Mr. PLATTS. I yield to the gentleman from New York for the purpose of questions.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Ms. Davis, let me ask, in your testimony you state that identifying and analyzing the root causes of improper payments is the key to developing corrective actions to reduce and prevent improper payments. What has GAO identified as the main root cause of improper payments among Federal agencies?

Ms. DAVIS. That is a good question. There are many answers to that and it would be difficult to put everything into one specific category.

As you know, there are three different categories established by OMB: documentation/administrative, authentication medical necessity and verification errors. The compliance is about 50 percent as far as agencies reporting they have identified root causes within those.

I can give an example that I think might be helpful to you. For example, the Department of Labor's Unemployment Insurance Program has determined that most of the errors there are due to people who have actually gone back to work and are still continuing to collect benefits. As an information point, the Department of Labor has been working with HHS who has a Do Not Hire data base and they are looking at that data base to help and assist them in determining when people actually go back to work.

There are many, many reasons. There are many administrative errors. The issues presented have been categorized into those different areas. We noted that the explanations were in all three areas when we received information from the different agencies but the first area, the documentation and administrative area, seemed to have the highest recurrence or frequency of reasons for root cause information.

Mr. TOWNS. Senator Carper said something that really, really bothered me. He indicated that an example of a person who had expired and 20 some years later, they were still receiving his or her social security money. I know it is the obligation of the family to report but is there any way we can connect with the funeral director and require some responsibility there in terms of from a legislative standpoint? It seems to me that should be easy to fix. If a person expires, the funeral director would indicate this person is no longer with us, therefore no further payment should be made.

Does this make sense? I am trying to get my arms around what we can do to cut down on the numbers because they still seem to be very big. Anybody?

Mr. WERFEL. I agree, Congressman. This is an area we have delved into after the President directed the creation of the Do Not Pay List because in that memorandum, the President specifically called out the Social Security Death Master File as a dataset that we need to make sure we are checking more robustly to prevent these payments.

There are a couple challenges. There is imperfect information in the Death Master File. The Social Security Administration has tried a variety of different efforts to improve the timely and accuracy of that data base, including working in some cases with States on programs to get funeral directors to report information more fre-

quently. There are other mechanisms in play that can improve that but it remains an imperfect data base and that can be part of the problem.

The other challenge, and this is something I think Congress can help us think about very closely, the access to the Social Security Death Master File and all these various data bases are not seamless. There are I believe legitimate but challenging legal barriers for an agency to access information whether it is the Privacy Act or data security issues.

Even if we get a fully robust and timely complete Death Master File, which is a challenge we are working toward and Social Security is working on with us, the next hurdle is making sure that the agencies have real time access to that data because the 20-year example is egregious and we need to stop that.

The higher risk is the more recent death situation where we didn't get the data, the payment went out and I think that is the higher probability of where we are going to make an error and that is where more of the improper payments are. To close that particular gap, we need to make sure we are getting access to data. We need to figure out good solutions to some of these legal issues because the Privacy Act and the data security all these issues are legitimate. We just need to figure out if there is a way to get agencies access to that information quicker while still protecting those other important interests.

Mr. PLATTS. I yield myself time again. One is a follow up on Mr. Towns' question and the discussion about reporting of root causes and the failure by the majority in dollar amount of the improper payments did not come along with the proper identification of the root causes.

In the Improper Payments Act of 2010, sanctions were created for agencies that do not properly comply with the law. I think that goes to the issue of not properly reporting the root causes of improper payments. HHS, which again has the majority of these improper payments, their auditors said for the eighth year in a row now, they have failed to comply with the original Improvement Act of 2002.

Mr. Werfel, I know the 2010 act is a little over a year old but what type of sanctions should we expect to see and what, if any, are being pursued because of the failure of agencies to fully comply?

Mr. WERFEL. The Improper Payments Elimination and Recovery Act, which was passed in July 2010 I believe, for the first time changed the landscape on improper payments and added this concept of sanctions and increased accountability. Those are really triggered, I believe, on the Inspector General's review and their assessment, and based on the different type of noncompliance, whether it is failure to report root cause or having an error rate that is too high, whatever the issue is, or not reporting a program.

For example, we discussed TANF in the HHS realm. The IG will report and I think those reports are due, and with the enactment of IPERA, we are now kind of in that first phase of IG assessment, and those reports are due in mid-March. At that time, we will have a good sense of what the landscape of non-compliance is and then the statute will trigger a variety of different repercussions such as

special reports to Congress, requirements in terms of how discretionary funds are used to combat improper payments.

This is something we hope will help reinforce the importance of these things that are not being complied with. It is something we will have to evaluate together to see if those sanctions are doing their job or if we need to think differently and raise the stakes.

Mr. PLATTS. Do you see, under the President's Executive order, we created accountable officials? They kind of go hand in hand with the law of trying to ensure compliance and make sure there isn't a reason for sanctions. Can you comment on how the administration sees the accountable officials working with the requirements for sanctions if there is noncompliance?

Mr. WERFEL. Absolutely. Let me start by saying I have had the privilege and the opportunity of being at OMB across the entire life span of the Improper Payments Initiative starting with the passage of the IPIA in 2002 until today and I believe firmly that this administration has set a new bar in terms of accountability.

The President himself has been actively engaged on the issue. I have been in meetings where he has talked to Deputy Secretaries directly about his concern over this issue. The establishment of the senior accountable official is a part of the blend of different things that the administration is doing on a whole variety of management improvements.

I think we need to look at a broader picture. From the HHS perspective, you mentioned that half our balance sheet is HHS for these improper payments. There is a tremendous footprint of work going on at HHS right now. It is a major, major top priority. I mentioned the President, the Vice President is also interested in this. The Vice President is now holding quarterly Cabinet meetings on waste and improper payments is an essential theme of those meetings. I think in two of those meetings, Secretary Sebelius has presented to the Vice President on HHS efforts. This is at the very highest level.

I will point out I think it is important to note that while there are areas HHS needs to improve upon, when you step back and look at the amount of improper payments that HHS makes, it is staggering, but at the same time, the major programs in HHS, all the parts of Medicare and Medicaid, those error rates are declining and have declined several years in a row. That is an important trend and demonstrates that the agency effort is having an impact.

As everyone in this hearing has noted so far, there is a lot more work to be done but I think the trend is positive.

Mr. PLATTS. If you use Part D as kind of the newest major program to come online, I think an error rate of a little over 3 percent versus over 8 percent for Medicare and Medicaid, I hope that means since it is a new program, we are getting it right up front as opposed to trying to correct problems down the road with Medicare and Medicaid after the fact.

Mr. WERFEL. I would say that the Department is much more focused and has much more resources they are bringing to bear on improper payments at the birth of Part D than they did at the birth of the other programs. I think that is one of the reasons why you are seeing a Part D error rate that is lower than the other programs.

Mr. PLATTS. Hopefully that continues. Before I yield to Mr. Towns, I think all three of you had an opportunity to hear Senator Carper's testimony and are familiar with his legislation. It may not be fair to ask without him here to respond, but what do you think is most important in his bill that we should be looking at or is there anything that concerns you in a broad sense.

Mr. Werfel, maybe for you specifically, the Do Not Pay part of his bill, do you think it aligns with what he is proposing legislatively and what the administration is already seeking to do or is there something we should be aware of in the groundwork already laid that we don't undo it legislatively by taking a different approach?

I will start with Mr. Wood, Ms. Davis and then Mr. Werfel, we will finish with you, the broad pros and cons of the bill and then specifically the Do Not Pay part for Mr. Werfel.

Mr. WOOD. Thank you and I will touch on the Do Not Pay as well because we have been doing some work in that related area at the Recovery Board.

I think it is a strong bill and I think it improves the methodology for collecting this data. As Mr. Werfel said, the data is not always perfect. We seem to be moving in a direction to get that.

One of my concerns, at the Board, our tools are focused more on prevention and oversight. That is what we have been doing with the Recovery Act. We have done a fairly good job on that. We have talked to both OMB and GAO and the Treasury Department is building this GoVerify system about our technology and their technology.

My concern with the Do Not Pay area would be being to prescriptive in what do you have to look at for Do Not Pay. At the Board, we take sort of a broader approach. We have our Recovery Operations Center, we have a system where you can run entities or individuals through it and come up with a list of people who would clear and then take a closer look at people where you think there is a problem because there are a lot of false positives and so forth.

We have talked to Treasury about our approach. Danny mentioned it is difficult to get access to some of these data bases. We are still working on getting all the data bases listed in the Executive order that talked about Do Not Pay.

The one area I think I would be concerned about in looking at that from a technology standpoint and an oversight standpoint is being too prescriptive in here are the three things you will check. There are a lot of things you might check.

For instance in the Recovery Operations Center, one of our successes has been able to look across government. You can look at things, for instance, these recovery audits which are recouping payments, you can look at them across government perhaps using nonstructured data analysis to find if there are trends and similarities where you might not expect them.

DOD may collect some money that is very similar to what Social Security Administration is collecting and for the same reasons that it gets to the root cause analysis. There are some technological approaches you could take that are interesting, some of advanced, cutting edge sorts of things that you really don't want legislation tying your hands on any of that.

I don't think it does at this point but that is one area, in reviewing it, that I would mention.

Mr. PLATTS. In essence, making it clear that if the legislation identifies certain data bases to look at.

Mr. WOOD. These, plus perhaps others, and the methodologies might go beyond one check.

Mr. PLATTS. Ms. Davis.

Ms. DAVIS. Since GAO has not formally reviewed the bill, I cannot specifically comment. I can say that at a very high level, the intent of the bill for accountability transparency purposes is certainly an admirable goal. I can also make a statement again very generally that some of the concepts in the bill such as looking at high priority programs and data matching, comparing data bases, are best practices that we really talked about in many of our reports. Other than that, I really cannot comment.

Mr. PLATTS. Mr. Werfel.

Mr. WERFEL. Similar to Ms. Davis, we have not run the appropriate process across the administration so I can present an administration position, so I don't want to state anything that could be represented that way.

I will say on a general matter, and reinforcing my point earlier, the number one barrier to success in the Do Not Pay environment is going to be access to data. I think one of the most important things Congress can do to help on improper payments is to help us pull back the onion layer on these various data bases and figure out how to navigate this important tension between privacy and security and the need to have this information to enforce program integrity outcomes.

I think right now we haven't tackled the issue directly and therefore, every time we determine that access to a data base is going to be helpful to drive down improper payments, we go through a very long and laborious process to try to figure out how to thread the needle and get the data in and we are not serving the taxpayer effectively by taking it one at a time. I think that is one of the most important things we can do as a community.

Mr. PLATTS. We certainly saw that in our oversight hearings regarding the Internal Revenue Service and taxpayer identity fraud and the challenge of access to information preventing that type of fraud from occurring.

I understand you can't speak as far as the administration position. As it currently stands, are you aware of anything in the bill regarding the Do Not Pay aspect of it that would undo the efforts currently underway by the administration regarding Do Not Pay?

Mr. WERFEL. I am not aware of anything that I would undue. If I understand the bill correctly, its intent is to reinforce. Again, I would go back to this broader question of data access as the big issue that is going to help accelerate and drive greater success outcomes. I don't know of anything in the bill that undoes it.

Mr. PLATTS. I yield to the gentleman from New York, Mr. Towns.

Mr. TOWNS. Mr. Wood, can you explain what factors you use to predict whether a program is susceptible to fraud?

Mr. WOOD. I don't know if I have a perfect explanation of that but we do look at a whole series of factors. When we were doing the Recovery Act early on, we worked very closely with the various

Inspectors General, and with the program officials and OMB to come up with a list of what we considered high risk programs. That was based on a whole series of analysis, historical information, data we might have on hand, what type of spending it was going to be and what seems to be more subject, at least historically, to risk. As Mr. Werfel keeps mentioning, part of our issue with the Federal Government is we don't have good historical data sets around some of these things.

We look at a whole series of things. We are building a product called the fraud scorecard which is very similar to something you might see in FICA and the actually the people who developed it are building it for us. When we look at it, the difficulty we have is we don't have as good historical data sets of bad actors. That kind of information just wasn't collected in a manner that would help us. You take the people who did things incorrectly versus those we know who did it correctly and you build some factors where you could do that using technology.

At the Board, we have combined both technology and sort of commonsense rules of thumb on what we see as high risk areas. That is what we are looking at. The Board is looking at identifying these high risk areas and trying to initiate preventive measures, better internal control, training, different checks on who we are giving money to, that type of thing.

If I could figure out a good set of characteristics for fraud, I would probably be very wealthy.

Mr. TOWNS. You wouldn't need this hearing.

Mr. WOOD. Yes, we could design a solution. Hopefully that is helpful. We sort of look at a matrix of things. At the Board, we are lucky we have technology that we are able to apply that is very powerful as well that needs to be interpreted by humans.

Mr. TOWNS. I noticed that there have been 70 leads of possible fraudulent activity to various agencies. Will you be able to get results as to whether or not what you suspected really happened? I am trying to figure if there is a feedback mechanism?

Mr. WOOD. Yes, there is and we actually just started an effort at the Board to go out and work closer with the IGs to build that better feedback mechanism that if we send out information, what is happening with that, is it really actionable and does it turn into cases. Unfortunately, if it is a criminal matter, that could take a couple years, so we are fairly young in that regard. We have only been around for a few years and a couple of years before we sunset.

We are building a feedback. We have a new chairman, Kathy Tighe, who has come over to replace Earl Devaney who had been there for the last few years. That is one of the things Kathy has been working on, to try and get this feedback loop in place so we can answer those questions very specifically.

Mr. TOWNS. Thank you very much.

Mr. Werfel, people doing wrong sometimes find different ways and methods to move on to continue to do wrong. What steps have been put in place to ensure that individuals and entities that are on the list do not simply create a new company or continue their fraudulent activities by changing their name?

Mr. WERFEL. That gets to what Mr. Wood talked about being the real game changer in terms of addressing error reduction. The Ex-

cluded Party List GSA has of those suspended and debarred from receiving Federal payments, if we do a one dimensional match and say I am about to pay 30 vendors and I run a match against the GSA data base, I could very well not see any of those 30 entities appear, assume none of them are suspended or barred and move forward.

As you point out, the reality may be that one of the entities I am about to pay was a suspended and debarred entity not a few years ago but has reincorporated under a new name and therefore has done so in a way that eludes our ability to make sure we stop that payment. In order to get at that, you have to do two things. You have to access more detailed and robust sets of data. You can't just rely on the simple, uni-dimensional GSA list, you have to do some investigation outside of that list to understand the history of some of these companies and the relationship of some of these companies. Fortunately, where we are today in the information age, that type of information is available.

As Mr. Wood pointed out, you need human beings that know how to ask the questions of data. It can't simply be the technology doing the match, you have to be smart enough to look for patterns and trends and profile some of this information to say this is the type of company that we have seen before that has been reincorporated in a new name, so we know exactly how to ask the data.

It is not easy to do. I think the good news, Congressman Towns, is that because of the great work that is going on, the Recovery Board has plowed new ground in terms of showing us the way in terms of how to look at the data multi-dimensionally. When we build our GoVerify Center, I mentioned earlier it is not just the technology, there is an Analytic Center, it is for this exact reason because just the technology won't solve the problem, you need the analytics as well in order to stay ahead.

I think where you would be pleased is if HHS was here talking about some of the work they are doing in fraud detection. They are asking these multi-dimensional questions they didn't ask previously. They are starting to look and understand trends and patterns of behavior they didn't once know about. Frankly, the Recover Board helped them raise their game because the Recovery Board did a pilot of their tool with HHS and showed them some new tricks and new ways of staying ahead of the fraudsters now being deployed at HHS.

We are not where we need to be yet but there is some promising direction taking place. We are starting to have more robust approaches to fraud detection.

Mr. TOWNS. My time has expired but I have one quick question. I know you asked about the legislation and I heard the response. Is there anything more we need to do on this side of the aisle that might help you be able to work much more effectively and be able to solve some of the problems you keep running into?

Mr. WERFEL. From my standpoint, there are a couple of key things. Last year's President's budget, for example, includes a series of program integrity proposals that we believe have a dramatic and important impact on improper payments that have been in budgets for years and not been enacted for whatever reason.

In some cases, it is investing in more reviewers and investigators but that infrastructure you invest in has a return on investment, sometimes $11 for ever dollar invested. Those are really, really important things that we need to be very careful if we are not going to make those investments in understanding the cost we are bestowing on the taxpayer when we don't do that.

There is also included in previous Presidential budgets legislative changes that provide tools, for example, to the Treasury Department or others that help us wield certain tools to help collect data or enforce improper payments more effectively. Whenever I am asked that question, I try to call attention to those remaining program integrity provisions that are not provided for.

I reiterate, helping us crack this nut of data access, making sure we can balance those policy tensions and third is what you are doing today, these types of hearings, it is powerful and important for me to go back to the agencies and say I was just up on Capital Hill, they were demanding answers on improper payments, that empowers me to work with the community to make sure they are dedicating the necessary resources to address the problem.

Mr. TOWNS. Thank you.

Mr. Wood.

Mr. WOOD. I would second the item on access to data sets. Anything the Congress could do to alleviate some of the problems we run into because of the Privacy Act. There is a tension; you don't want to release privacy information but at the same time, the government needs to be able to match some of the data in an easier way.

The second piece related to data is anything you could do in your oversight role or in other legislation to push data quality and standardization. We have new tools that allow us to reach into some of these data bases that are fairly antiquated and match data but that is a difficult thing to do.

There are a lot of people maintaining these data bases and if they would do it in a more standard way, build them in a more modern way where we can get access to the data much easier than we do today, that would be very beneficial so we could share data easier. Those would be my two points.

Mr. TOWNS. Thank you.

Ms. DAVIS. Congressman Towns, I would echo the earlier comments about the value of these hearings. I think they show the transparency and the importance of this issue, so that would be my first comment.

My second comment might be looking very deeply at some of these program design issues to the extent they might be affected by legislative barriers. Medicare is a very good example of how we have partnerships with the States but it is very difficult because there are so many complex and inconsistent requirements among the States. It creates difficulties and is certainly something that would affect improper payments.

The other area is working more closely with GAO as you have been doing. We have a number of projects currently in process. We have a couple of Medicare projects related indirectly to improper payments; we have two projects in Medicaid that are looking at improper payments. One of them is specifically looking at CMS esti-

mating methodology. One is in the design phase so it is very early. The other is expecting a report probably this summer, may be around June.

We are looking at DOD looking at a number of things related to improper payments along with some of their estimating methodologies, looking at the Recovery Audit Program and regulations affecting improper payments.

We continue to do that and would be happy to continue to work with you in any way we can and any issue related to improper payments.

Mr. TOWNS. Thank you very much.

Thank you, Mr. Chairman, for your generosity. I know I went way over my time.

Mr. PLATTS. You and me both.

A final comment, Mr. Wood, those projects with Medicare and Medicaid, and Mr. Werfel, with your discussions as part of your testimony with HHS in the broad sense of the leadership of Secretary Sebelius and the commitment they are making. We may want to look at a hearing specific to HHS programs that may include what GAO is looking at and allowing the Department to share what they are doing. Certainly it is important given the size of the improper payments that come under that Department, but also what they are doing that can be beneficial across the Federal Government departments and agencies.

That is something we can look at maybe later this summer, to have GAO participate with those projects, it would have to be a bit later in the summer. I think it would be a good idea for us to look at that.

I do want to again thank each of you for your testimony. As always, we are very blessed by the knowledge and expertise our witnesses bring to us. Mr. Werfel, you have been before us a good number of times over the years, probably both when Mr. Towns chaired as well as when I have chaired. To all of you, and especially Mr. Werfel, your leadership on these issues and the partnership you have had with this committee for a long time is appreciated.

We are going to keep the record open for 7 days if there are other materials to be submitted and look forward to continue to work with you on the macro sense as well as the micro sense such as Senator Carper's legislative proposal as we go forward.

This hearing stands adjourned.

[Whereupon, at 11:30 a.m., the subcommittee was adjourned.]

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