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**Testimony of David Mader  
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before the  
Senate Committee on Homeland Security and Governmental Affairs  
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Thank you Chairman Johnson, Ranking Member Carper, and distinguished members of the Committee, for inviting me here today to discuss the Federal Government's ongoing efforts to prevent, reduce, and recapture improper payments. I appreciate the opportunity to provide an update on this important topic. Our partnership with the Congress and consultation with the Government Accountability Office (GAO) over the years has been vital to these efforts and most recently we appreciate the Congress' support for Health Care Fraud and Abuse Control (HCFAC) funding provided in the Fiscal Year (FY) 2015 Budget.

While not all improper payments are fraudulent or represent a loss to the Government—improper payments are payments made to the wrong entity, in the wrong amount, or for the wrong reason—improper payments compromise taxpayers' trust in their Government.

Addressing improper payments is a central component of the Administration's overall efforts to eliminate waste, fraud, and abuse. When the President took office in 2009, the improper payment error rate was 5.42%, an all-time high. Since then, the Administration, working together with the Congress, has made progress by strengthening accountability and transparency through annual reviews by agency Inspectors General, and expanded requirements for high-priority programs such as the requirement to report supplemental measures and program information on [paymentaccuracy.gov](http://paymentaccuracy.gov). As a result of this concerted effort, in FY 2013 OMB reported that the Government-wide improper payment rate was 3.53%.

During the period reflected in FY 2014 Agency Financial Reports (AFR), we experienced improper payment rate increases in major programs including Medicare Fee-for-Service, Earned Income Tax Credit (EITC), Medicaid, Unemployment Insurance (UI), and Supplemental Security Income (SSI). Over the same period, other major programs experienced improper payment rate decreases including Medicare Part C, the Supplemental Nutrition and Assistance Program (SNAP), and Public Housing/Rental Assistance. Additionally, the Department of Defense (DoD) has taken steps to improve improper payment sampling and estimations for the Defense Finance and Accounting Services (DFAS) Commercial Pay program to implement recommendations made by GAO.<sup>1</sup> As a net, these changes resulted in a Government-wide improper payment rate of 4.02%<sup>2</sup> or \$125 billion. Notwithstanding this rate, agencies recovered

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<sup>1</sup> Significant Improvements Needed in Efforts to Address Improper Payment Requirements, GAO-13-227.

<sup>2</sup> DoD's commercial payments were first included in the Government-wide rate in FY 2013. When the DoD commercial payments are excluded from the Government-wide figures, the FY 2013 rate is 4.00 percent and the FY 2014 rate is 4.46 percent.

roughly \$20 billion in overpayments through payment recapture audits and other methods in FY 2014.

While progress has been made over the years, the time has come for a more aggressive strategy to reduce the levels of improper payments we currently are seeing.

### **Current Administration Efforts**

#### *The President's FY 2016 Budget*

The current levels of improper payment errors are unaffordable and unacceptable. That is why this Administration has proposed to make significant investments in activities to ensure that taxpayer dollars are spent correctly, by expanding oversight in the largest benefit programs and investing in the Internal Revenue Service (IRS) tax compliance and enforcement activities.

Over the years, this Administration has worked with the Congress on legislation including the Improper Payments Elimination and Recovery Act of 2010 (IPERA), P.L. 111-204, and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), P.L. 112-248. These laws have provided agencies new tools and techniques to prevent, reduce, and recover improper payments. In addition, we look forward to continuing to work with this Committee on its efforts in this area, including on the proposals from the President's FY 2016 Budget to provide access to information for use by Federal and State agencies to further reduce improper payments.

The President's FY 2016 Budget provides additional opportunities to build on Congressional and Administration action to reduce improper payments. There is compelling evidence that investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment. The Social Security Administration (SSA) estimates that continuing disability reviews conducted in FY 2016 will yield net Federal program savings over the next 10 years of roughly \$9 on average per \$1 budgeted for dedicated program integrity funding, including the Old Age, Survivors, and Disability Insurance Program (OASDI), SSI, and Medicare and Medicaid program effects. Similarly, for HCFAC program integrity efforts, the Centers for Medicare & Medicaid Services (CMS) actuaries conservatively estimate approximately \$2 is saved, or payments averted, for every additional \$1 spent. Investments in IRS enforcement activities recoup roughly \$6 for every \$1 spent.

Examples of proposals that are in the FY 2016 Budget include:

- A robust package of Medicare and Medicaid program integrity proposals to: (1) prevent fraud and abuse before they occur; (2) detect fraud and abuse as early as possible; (3) more comprehensively enforce penalties and other sanctions when fraud and abuse occur; (4) provide greater flexibility to the Secretary of the Department of Health and Human Services (HHS) to implement program integrity activities that allow for efficient use of resources and achieve high returns-on-investment; and (5) promote integrity in Federal-State financing.

- Strategic reinvestments in the IRS, reversing the sharp funding reductions of recent years to help increase audit and collection coverage and reducing the deficit through a program integrity cap adjustment of \$667 million. This multi-year effort is expected to generate \$60 billion in additional revenue over the next ten years at a cost of \$19 billion, thereby reducing the deficit by \$41 billion. Coupled with the funding request, the Budget includes several legislative changes to reduce improper payments associated with the EITC. Specifically, giving the IRS explicit authority to regulate paid tax preparers, who prepare well over half of all EITC returns; a proposal to accelerate employer filing of tax information (e.g., W2s) so the IRS can do more data matching in real time, thus facilitating tax administration generally, as well as, resulting in savings for the EITC; and providing additional authority to the IRS to correct readily-identifiable EITC errors without an audit.
- An equally robust package of Social Security program integrity proposals to: (1) detect, prevent, and recover improper payments; (2) ensure only those eligible for benefits continue to receive them; (3) hold fraud facilitators liable for overpayments with interest; and (4) provide better wage and asset data for the prevention and recovery of improper payments or duplicative payments.
- A proposal to expand the Department of Labor's (DOL) initiative to conduct Reemployment and Eligibility Assessments and Reemployment Services (REA/RES), which is an evidence-based approach that reduces improper payments and speeds reemployment. The Budget also proposes to mandate state participation in the State Information Data Exchange System (SIDES), which would help reduce improper payments caused by inadequate separation information, one of the largest root causes of improper payments in the UI program.
- Improving payment accuracy by further sharing available death data across Government agencies to prevent improper payments. This proposal provides the Do Not Pay (DNP) system at Treasury access to the SSA's full death data, including data from states, to prevent, identify, or recover improper payments and expands the use of the DNP system to states, to improve the integrity of federal benefit programs administered by the states. Furthermore, we would like to continue efforts to explore additional data sources for the DNP system.

### *Improper Payments Guidance and Annual Reviews*

In addition to working with the Congress on the President's Budget proposals, we are taking administrative action now where we can. A key element of that effort is the recently revised Office of Management and Budget (OMB) Circular No. A-123, Appendix C, [Requirements for Effective Estimation and Remediation of Improper Payments](#), in which agencies were instructed to re-examine improper payment reduction strategies on a number of fronts Government-wide. This new guidance was issued on October 20, 2014, and provides a strategy to agencies and Inspectors General on key improper payment activities. The goal of this new A-123, Appendix C, guidance is to have a deeper understanding of root causes, the effectiveness of our efforts to date, and improve the completeness of the Government-wide estimate. Specifically, the new guidance helps agencies to:



agency management processes and resource levels. The review process will help improve operational efficiency and the cost effectiveness of agency management functions by using data analysis to drive performance based decision-making. The review process will provide OMB and agency leadership a forum to conduct a data driven structured discussion on long-term strategic challenges, such as improper payments. These discussions will provide value to all agencies beginning this spring and summer.

In addition to these Government-wide initiatives, on February 26th, 2015, the Director of OMB sent letters to agency heads in the four agencies (DOL, HHS, SSA, and Treasury) that have the largest high-priority programs. This direction requires early implementation of the OMB Circular A-123, Appendix C requirements described below by April 30th, 2015, for specific programs that contributed the largest amount to the Government-wide improper payment error rate in FY 2014. The direction requires that each agency conduct the following analysis and present it to OMB:

- Re-evaluate and expand existing corrective action plans that describe root causes and establish critical path milestones to meet improper payment reduction targets for each program in question.
- Review the new categories for reporting improper payments and fill out the category matrix found in OMB Circular A-123, Appendix C based on the FY 2014 estimate for the specific program in question. While we are not requiring most agencies to complete this matrix until FY 2015 reporting is due (with FY 2015 AFR/PAR), we believe it is crucial for OMB to have this level of granularity for these programs sooner to better inform a more effective strategy for reducing improper payments. These new categories for reporting improper payments will lead to more effective corrective actions at the program level.
- Provide a narrative of thoughtful analysis linking agency efforts in establishing internal controls and reducing improper payments. This narrative will deliver plans to provide reasonable assurance that effective internal controls over improper payments are in place.

OMB also has requested that each of these agencies consider engaging their Inspector General to develop a Cooperative Audit Resolution and Oversight Initiative to obtain independent feedback and foster continuous improvement in program integrity. In addition, this Initiative could be used to develop interim measures to gauge progress.

MITRE, a not-for-profit company which operates the Center for Enterprise Modernization, a Federally Funded Research and Development Center (FFRDC) sponsored by the Department of Treasury and IRS, and co-sponsored by the Department of Veterans Affairs, has initially embarked on an independent effort to conduct an independent research project that will focus on Government-wide payment integrity and improper payments. MITRE's work will center on assessing improper payment trends and more importantly analyzing improper payment root causes and best practices available to improve program integrity. MITRE's proposed research project will develop a set of strategic recommendations and concrete steps the Government could take to improve the improper payment rate.

### *Data Analytics to Reduce Improper Payments*

Under this Administration, we have focused on increased use of technology and sharing data to address improper payments. The effective use of data analytics also provides insight into methods of improving performance and decision-making capabilities.

Most significantly, on January 10, 2013, the President signed IPERIA into law, which includes requirements for the increased use of technology to combat improper payments. IPERIA complemented the Administration's Do Not Pay Initiative and mandated pre-payment and pre-award checks to prevent improper payments before they occur. To support IPERIA implementation, OMB provided the Congress a plan for agencies to integrate the required databases and a plan for improving the data quality of death data maintained by the SSA. Agencies are making progress in executing these plans. Most notably, the SSA, which has for many years collected death data from multiple sources including states, reported that it prevented about 356,000 improper payments in the OASDI program totaling almost \$450 million between January and September of 2014. SSA has been successful in utilizing death data to prevent improper payments before they occur, and seeks to further improve its data by addressing recommendations that SSA's Inspector General has offered. We look forward to working with the Congress on providing more agencies access to the full death data available and in continuing efforts to explore additional data sources for the Do Not Pay Initiative.

Other examples of agencies using data analytics to prevent improper payments include the CMS Fraud Prevention System (FPS), a state-of-the-art predictive analytics technology used to identify and prevent fraud in the Medicare program; DOL's UI Integrity Center of Excellence, a Federal-State partnership that facilitates the development and implementation of UI integrity tools by the states, and shares best practices in the detection and reduction of improper payments; and the General Services Administration (GSA) is developing a collection of data analytic tools to assist agencies in monitoring and preventing improper payments in Government charge card programs.

### **Conclusion**

Improper payments remain a priority for this Administration. Although progress has been made, much remains to be done and we need your help. We look forward to working with the Congress to pass the provisions within the President's FY 2016 Budget I have mentioned today and expect additional progress as OMB executes our new improper payments guidance and review process over the course of FY 2015. We are confident our strategy will yield results for the taxpayer. I appreciate the attention this Committee and the Congress dedicates to preventing improper payments, along with the efforts of the GAO, the Inspectors General community, and agencies. I remain committed to achieving our mutual objective of achieving payment accuracy and integrity in Federal programs.

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