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Introduction

Thank you Chairman Carper, Ranking Member Coburn, and distinguished members of the Committee, for inviting me to discuss the Federal Government's efforts to prevent, reduce, and recapture improper payments. I appreciate the opportunity to provide an update on this important topic to the Committee, which has been at the forefront of moving us forward on addressing improper payments.

In practical terms, improper payments are payments made by the Government to the wrong entity, in the wrong amount, or for the wrong reason. Although not all improper payments are fraud, and not all improper payments represent a loss to the Government—since they include both overpayments and underpayments—all improper payments degrade the integrity of Government programs.

This Administration has taken an aggressive approach to attacking waste, fraud, and abuse within Government agencies. Nowhere is this more apparent than in combatting improper payments. In FY 2009, the government-wide improper payment rate was at an all-time-high level of 5.42 percent. As a result of several actions taken by the Administration, the government-wide improper payment rate has steadily declined to 4.35 percent in FY 2012 (when Department of Defense commercial payments are factored in, the government-wide error rate falls to 3.7 percent). In addition, Federal agencies recaptured a record $4.4 billion in overpayments to contractors over the last three years, due in large part to the success of the Medicare Fee-for-Service Recovery Audit Contractor (RAC) program.

This is important progress, to be sure. However, I believe that there is much more work to be done, and that the amount of improper payments the government makes continues to be far too high.

Current Agency Efforts

The progress made to-date is largely driven by improper payment reductions in programs that typically have had high improper payment rates. In FY 2012, we saw improper payment rate reductions in a number of major Federal programs, including Medicare, Medicaid, Unemployment Insurance, the Earned Income Tax Credit, Supplemental Nutrition Assistance Program (Food Stamps), Pell Grants, the School Lunch program, and the Retirement, Survivors, and Disability Insurance. I would like to highlight some specific examples of what agencies are doing to reduce improper payments and improve program integrity.

Health Care Fraud and Prevention

In an effort to reduce improper payments—including those that are fraud-related—the Department of Health and Human Services (HHS) is using new approaches to detect and prevent fraud at the Centers for Medicare & Medicaid Services (CMS). CMS launched the Fraud Prevention System (FPS) to analyze all Medicare Fee-for-Service claims using risk-based algorithms developed by CMS and the private sector, prior to payment, allowing CMS to take prompt action where appropriate. FPS detects suspicious claims and providers, which then allows CMS to target investigative resources appropriately and swiftly take administrative action when warranted.

To enhance the use of FPS, last year, CMS opened a new Command Center to identify fraud in Medicare and Medicaid more quickly and more effectively, and to stop the waste of Federal funds. The Command Center brings together Medicare and Medicaid officials, as well as law enforcement partners from the HHS Office of the Inspector General, the Federal Bureau of Investigation, and CMS's anti-fraud investigators. In addition, the Command Center gathers experts from all different areas—including clinicians, data analysts, fraud investigators, and policy experts—to build and improve state-of-the art predictive analytics that spot fraud quickly and effectively. As a result of this collaborative approach, the agency is able to more quickly initiate administrative actions, coordinate with law enforcement, and avert additional losses by holding potential fraud perpetrators accountable.

The current approach to fighting health care fraud is paying off. For example, in FY 2012, fraud detection and enforcement efforts in the Health Care Fraud and Abuse Control (HCFAC) program resulted in the record-breaking recovery and return of $4.2 billion, a total that is double the program's annual historic average since 1997, and which resulted in an average return-on-investment over the last three years of $7.90 for every $1.00 expended.

Department of Defense Improper Payments

In FY 2012, the Department of Defense (DoD) estimated an improper payment rate for commercial payments at 0.02 percent. DoD plans to work on enhancing its sampling methodology to more fully consider the complexity of different types of payments for reporting in future years. Since 2008, DoD has been successful in identifying and preventing improper payments in its five largest commercial payment systems through use of the pre-payment Business Activity Monitoring (BAM) Program. The BAM Program uses data analytics and programming logic to identify and prevent erroneous payments to vendors, as well as payments for services not rendered. Root cause data captured during the transaction analysis is used to refine the analytic and programming framework to improve the detection capability. In FY 2012, this continuous refinement process resulted in the use of logic to detect when a payment is being made to the wrong entity. This new error detection has already resulted in the prevention of $108.3 million in payments to the wrong vendor.

Tax Fraud and Tax Identity Theft

Tax refund fraud caused by identity theft is a serious problem that causes billions of dollars in revenue loss annually and has negative consequences not only for the Government but also for the innocent taxpayers directly affected. The Internal Revenue Service (IRS) has taken numerous steps to combat identity theft and protect taxpayers, and continually looks at ways to increase data security and protect taxpayers' identities thorough a specialized fraud unit. For the 2013 filing season, the IRS has expanded those efforts. For example, more than 3,000 IRS employees currently work on identity theft issues (more than double the number at the start of the previous filing season), and since the beginning of 2013, the IRS has worked with victims to resolve more than 200,000 cases of identity theft. In addition, IRS has intensified its fraud detection efforts by expanding the number and quality of its identity theft screening filters. Further, IRS suspended or rejected more than two million suspicious returns (including identity theft returns) so far this filing season. Other program integrity efforts at the Department of the Treasury are also leading to positive results in the Earned Income Tax Credit (EITC) program. In FY 2012, EITC reported an improper payment rate that was lower than in previous years.

Department of Labor Improper Payments

The Department of Labor (DOL) has actively worked with the states to reduce improper payments in the Unemployment Insurance (UI) program. All states have been called to action to ensure that UI integrity is a top priority and to develop state specific strategies to bring down the overpayment rate. DOL also has provided states with supplemental funding to implement strategies and technology-based infrastructure investments that will help the states to prevent, detect, and recover UI overpayments. DOL's work with states in this area is beginning to prove successful, with the error rate declining from 12 percent in FY 2011 to 11.4 percent in FY 2012. Despite this success, we do see emerging challenges in this program that could potentially increase the improper payment rate, such as stricter state laws driving additional complexity on eligibility determinations.

To ensure that states actively own the responsibility of driving down the rate, DOL recently partnered with the New York Department of Labor to establish the UI Integrity Center of Excellence. New York has been a leader in combating improper payments in UI, and has made significant strides in recovering millions of dollars in fraudulent UI payments. This new Center will build upon these efforts and drive collaborative work with DOL and other states to develop and implement innovative integrity strategies that state UI programs can use to combat improper payments, and build capacity nationally to use data analytics and predictive modeling more effectively to support integrity efforts. The Center will leverage data analytics to identify the characteristics of claimants that commit fraud and create a methodology to act on those leads quickly to prevent, detect, and recover improper payments more effectively.

Innovation also plays an important role in ensuring program integrity in the UI program. Under a pilot program funded by the Partnership Fund for Program Integrity Innovation, DOL has been working with the National Association of State Workforce Agencies (NASWA) and three partner states (Missouri, Illinois, and Mississippi), to test the value of matching financial transaction data against state unemployment insurance data to help states detect when a claimant may have returned to work and is no longer qualified for benefits. Results from a retrospective data match with states are still under review but are quite promising. They indicate that this new approach could enable states to detect potential overpayments much more quickly than existing matches allow, which could prevent tens of millions of dollars in improper payments every year if put into practice.

This is important progress made across a variety of programs. However, there is more work to be done. The Government still made nearly $108 billion in improper payments in 2012, which is an unacceptably high number and degrades the integrity of Government programs. Moreover, certain programs such as Medicare Advantage and the Rental Assistance program at the Department of Housing and Urban Development saw increases in their payment error rate, indicating that we have more to do to reduce error in these programs.

Moving Forward

To help guide our future efforts, the Administration has set a new government-wide goal of reducing improper payments: by the end of FY 2016, we aim to achieve a minimum 97 percent government-wide accuracy rate, which translates to an improper payment rate of 3 percent or less. Today, I would like to highlight several important initiatives that will anchor our efforts in addressing improper payments and reaching our goal.

The President's FY 2014 Budget

The President's FY 2014 Budget includes a suite of program integrity proposals that, if enacted, would result in an estimated $98 billion in total savings over 11 years. For example, the Budget proposes to establish a dependable source of mandatory funding for Continuing Disability Reviews (CDRs) and Supplemental Security Income (SSI) redeterminations, which would save an estimated $38 billion over 10 years. In addition, the Budget also continues to build upon a robust set of proposals to strengthen Medicare and Medicaid program integrity from last year's Budget and prior efforts.

There is compelling evidence that additional investments in program integrity can significantly decrease improper payments and recoup many times the initial outlay. For example, for every dollar spent by the Social Security Administration (SSA) on a disability review, the Government saves an estimated nine dollars in erroneous payments. In addition, historical rates of return for the Health Care Fraud and Abuse Control (HCFAC) program continue to grow. From 2010 to 2012, the program returned almost eight dollars for every dollar expended, as mentioned earlier in my testimony.

Implementing the Do Not Pay Initiative

Under this Administration, the Federal Government has focused on leveraging technology and sharing data to address improper payments. In April 2012, the Administration launched the government-wide Do Not Pay effort to help agencies avoid making payments to individuals or entities who should not receive Federal funds, such as debarred contractors receiving Federal awards, or retirement benefits going to dead Federal employees. By providing a single point of access to an array of databases and using data analytics, we are equipping Federal agencies with new tools to stop improper payments before they occur.

Earlier this year, the President signed into law the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), which will enhance the Administration's efforts to combat improper payments. Consistent with existing protections for individual data privacy, the new law will help improve the determination of improper payments by agencies, improve recovery of improper payments, and reinforce and accelerate the Administration's "Do Not Pay" efforts.

As required under IPERIA, agencies will begin checking all payments, as appropriate, through Do Not Pay by June 1, 2013. Over the past few months, the Office of Management and Budget and Treasury have worked to develop and enhance an initial working system that will allow for central screening of payments against Do Not Pay using payment information agencies previously provided to Treasury in the ordinary course of business. The first phase of Do Not Pay implementation will focus on matching recipients with public data from the Death Master File (DMF) and the System for Award Management (SAM, which includes the former Excluded Parties List). Treasury will provide reports to agencies, which will adjudicate hits and adjust pre-award and pre-payment procedures to ensure these procedures factor in relevant information from Treasury on potential disqualification from eligibility. This is only a first step, however, as there is much more to be done to ensure that Do Not Pay is the robust, comprehensive solution for ensuring payment eligibility that Congress and the President have envisioned. Access to additional, appropriate databases will be expanded as, among other things, each agency involved completes necessary data-sharing agreements and satisfies database-specific legal restrictions (including privacy safeguards).

To help bolster Do Not Pay's value and address other key Administration goals, the President's FY 2014 Budget includes two proposals related to improving access to, and the completeness of, death data. We estimate that the first proposal would prevent more than $1.3 billion in improper payments over 10 years by expanding Federal agency access to death data submitted by states for specific purposes that include program integrity. The second proposal would gradually phase in full implementation of electronic death records in all states and other vital records jurisdictions over four years, which would result in timelier and more accurate data in the Death Master File.

Conclusion

I would like to close by emphasizing that this Administration will continue to treat improper payments as a key priority, and will continue to explore new and innovative ways to reduce, prevent, and recapture improper payments. I am proud of the progress we have made so far, but there is much work to be done to improve the accuracy and integrity of Federal payments. Therefore, I look forward to continuing to work with this Committee, as well as the Government Accountability Office and the Inspectors General community. All of these stakeholders are our partners in this endeavor, and they play a critical role in holding the Federal Government accountable for reducing improper payments.

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