

**EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET**

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before the**

**Senate Subcommittee on Federal Financial Management, Government Information, Federal  
Services, and International Security**

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**Introduction**

Thank you Chairman Carper, Ranking Member McCain, and distinguished members of the Subcommittee, for inviting me to discuss how the Federal government is using technology to prevent and reduce government payment errors. As you know, the President feels strongly that we need to bring a new sense of responsibility for taxpayer dollars by eliminating what doesn't work, cracking down on waste, and by making government more open and responsive to the American people. This is a cause he worked on as a member of this body and that the Administration has focused on since taking office. One of the ways the Administration will accomplish these goals is through improving the Federal government's use of technology to enhance citizen services, improve the productivity of government operations, and identify and help prevent fraud, waste, and error in government programs.

One of the biggest sources of waste and inefficiency is the nearly \$110 billion in improper payments made in Fiscal Year (FY) 2009 to individuals, organizations, and contractors. Improper payments occur when funds go to the wrong recipient, a recipient is ineligible for the payment (e.g., a deceased or incarcerated individual), the recipient receives the incorrect amount of funds (including overpayments and underpayments), documentation is not available to support a payment, or the recipient uses funds in an improper manner. Whether the payment error resulted from inadequate recordkeeping, an inadvertent processing error, the lack of timely and reliable information to confirm eligibility, or fraud, the amount of payment errors we incur is unacceptable and must be addressed aggressively and comprehensively.

Accordingly, I am pleased that we have set aggressive goals to reduce the current, government-wide amount of improper payments by \$50 billion, and to recapture through payment recapture audits at least \$2 billion in improper payments to vendors by FY 2012 - a significant acceleration and increase of recoveries from the previous several years.

While the Administration has several initiatives underway to accomplish these goals, our partnership with Congress is vital to these efforts to prevent and recover improper payments. The recent enactment of the Improper Payments Elimination and Recovery Act was an important milestone in this partnership, providing Federal agencies with new tools to address payment errors. The President's FY 2011 Budget was another critical step, as it contains a series of

mandatory and discretionary proposals that enable critical program integrity improvements in areas such as Medicare, Medicaid, Unemployment Insurance, and Social Security. Common to all these proposals are taxpayer savings from the elimination of waste and error. In total, the President's proposals, if enacted, would save more than \$150 billion over 10 years.

In addition, the Affordable Care Act was an important milestone in program integrity, as the new law contains numerous authorities and tools for the Department of Health and Human Services (HHS) to root out fraud and error in Medicare and Medicaid, and to recapture improper payments in these programs. With the Act's passage, we are now focused on the important work of effectively executing these new authorities in a manner that results in swift and sharp decreases in payment errors in our Federal health care programs.

The remainder of my testimony today further elaborates on our efforts to prevent and recover improper payments, with emphasis on the central role that technology plays.

### **Improper Payments Overview**

The Federal government makes billions of dollars in payments every year. These payments provide support to millions of retirees and disabled individuals, student loan benefits for many college-aged students, payments to contractors for services performed in the United States and abroad, and funds for state-administered programs like Unemployment Insurance (UI) and the Supplemental Nutrition Assistance Program (SNAP).

The vast majority of payments made by the government are proper. This means that the payments are for the right amount, are sent to the right recipient, and are used for the right purpose. Unfortunately, there are instances where the government makes improper payments. For example, an agency may send a payment to the wrong person or business, the payment may be sent to an ineligible individual who is deceased or incarcerated, the payment may be for the wrong amount or be a duplicate payment, or there may be inadequate documentation to verify that the payment is appropriate.

Recognizing that improper payments were a problem that likely extended throughout the Federal Government, Congress passed the Improper Payments Information Act of 2002 (IPIA, Pub. L. 107-300), and the Improper Payments Elimination and Recovery Act of 2010 (Pub. L. 111-204). Among other things, agencies are required to conduct risk assessments to determine which programs are susceptible to significant improper payments, to measure and report improper payment rates and amounts for programs that are found to be susceptible to improper payments, and to implement corrective actions to address the root causes of improper payments and reduce and prevent future improper payments.

Where once there was limited government-wide knowledge of the extent of improper payments, agencies now work to identify programs that are susceptible to making significant improper payments, and to address the causes of improper payments. In FY 2004, the first year of improper payment reporting, agencies measured 30 programs and reported an estimated \$45 billion in improper payments. Since that first year of reporting, the number of programs measured has more than doubled, agencies have refined their measurement methodologies and improved the identification of improper payments, and government outlays have increased.



These three factors have led to increases in improper payments reported by agencies, and in FY 2009, the most recent year of reporting, agencies reported \$110 billion in improper payments. This total represents a \$38 billion increase from FY 2008. Contributing to this increase is a lack of adequate controls surrounding payments, a lack of tools to identify and prevent improper payments, and the factors previously identified (an increase in the number of programs reporting, increased government outlays, and changes to error measurement methodologies).

As noted throughout my testimony, the Administration has begun aggressive efforts to remediate the nearly \$110 billion in estimated improper payments. To that end, we have several initiatives under way to prevent, reduce, and recapture improper payments, and have proposed additional efforts in the President's FY 2011 Budget. At the same time, the Administration is cognizant that efforts to reduce improper payments cannot unduly burden the intended beneficiaries of program benefits and legitimate entities doing business with the Federal government. That is why, as discussed below, Executive Order 13520 focused both on reducing improper payments and ensuring program access for program participants.

### **Current Administration Efforts**

In addition to putting forward administrative, legislative, and funding requests in the President's FY 2011 Budget, the Administration is already taking several steps to reduce and recapture improper payments. Many of these initiatives revolve around leveraging technology to improve government operations and reducing payment errors. I would like to highlight and provide a brief description of six of these initiatives: implementation of Executive Order 13520 on Reducing Improper Payments, release of a Presidential memorandum on Enhancing Payment Accuracy Through a "Do Not Pay List," release of a Presidential memorandum of March 10, 2010 on Payment Recapture Audits, implementation of the Affordable Care Act (P. L. 111-148), implementation of the Partnership Fund for Program Integrity Innovation, and use of pre-payment and post-payment tools to identify and prevent improper payments.

#### *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 on Reducing Improper Payments.<sup>1</sup> The Executive Order will 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 (such as UI, SNAP, and Medicaid).

The Executive Order represented a fresh approach to improper payments in many ways, including emphasizing the importance of improving payment accuracy without taking actions that restrict access to program benefits for legitimate beneficiaries. The goal is not to make government harder to navigate. For example, for a poor family who needs SNAP benefits to help put food on the table or a child who needs health care and qualifies for Medicaid or the Children's Health Insurance Program (CHIP). The goal is to do a better job of detecting

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<sup>1</sup> Executive Order 13520 can be viewed on the White House's website at: <http://www.whitehouse.gov/the-press-office/executive-order-reducing-improper-payments>



fraudulent claims and averting improper payments while maintaining and improving how accessible our programs are for the public.

Agencies have made great strides in implementing the Executive Order. We have identified agencies with high-priority programs that account for the majority of improper payments, established supplemental measures to provide more frequent and current measurements for the majority of these high-priority programs, and selected Accountable Officials that are responsible for coordinating efforts to reduce improper payments at agencies with high-priority programs. All of this information is now readily available to the public on a recently launched improper payments dashboard at *PaymentAccuracy.gov*. Specifically, the dashboard, required by the November Executive Order, includes:

- Government-wide and program-by-program data on improper payment rates, amounts and reduction targets;
- Data on the amount of contract payment errors recovered;
- The top 10 highest improper payments for the most recent reporting quarter;
- The identity of the agency senior accountable official; and
- Agency success stories.

Further, I am pleased to report an early success in one of our high-priority (or high-error) programs, the Supplemental Nutrition Assistance Program (SNAP). In June, the Secretary of Agriculture reported that the SNAP error rate fell from 5.01% to an all-time low of 4.36%. Over \$50.3 billion in SNAP benefits were issued in 2009. If the error rate had remained the same as the prior year's rate, \$330 million in additional errors would have occurred. Despite record-breaking participation levels, benefit increases, an increased amount of resources being spent, and a continued focus on outreach and accessibility, the program experienced its 6th consecutive year of error rate reduction.

### *The "Do Not Pay List"*

In addition to the November Executive Order, the Administration has taken other steps to reduce and prevent improper payments. As you may know, the President recently issued a memorandum to agencies on Enhancing Payment Accuracy through a "Do Not Pay List."<sup>2</sup> The President's memorandum directs that a "Do Not Pay List" be established, which will serve as a single source through which all agencies can check the status of a potential contractor or individual by linking the agency to relevant eligibility databases, such as the Social Security Administration's Death Master File, the General Service Administration's Excluded Parties List System, the Department of the Treasury's Debt Check Database, the Department of Housing and Urban Development's Credit Alert System or Credit Alert Interactive Voice Response System, and the Department of Health and Human Services' Office of Inspector General's List of Excluded Individuals/Entities.

Too often, an agency does not check these and other government databases before making a payment, or finds it difficult to do so. By not checking these databases, agencies are denied

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<sup>2</sup> The President's memorandum on Enhancing Payment Accuracy Through a "Do Not Pay List" can be viewed on the White House's website at: <http://www.whitehouse.gov/the-press-office/presidential-memorandum-enhancing-payment-accuracy-through-a-do-not-pay-list>



essential information that they need to determine, for example, if an individual is alive or dead or if a contractor had been debarred. In fact, over the past three years, Federal auditors have reported that the government paid out benefits totaling more than \$180 million to approximately 20,000 Americans who were dead; and more than \$230 million in benefits to approximately 14,000 fugitive felons or those in jail and who are not eligible for benefits. In addition, earlier this summer government auditors released a report that identified millions of dollars to ineligible recipients, including dead and incarcerated individuals, in the Treasury Department's First-Time Homebuyers Credits Program (Homebuyers Credits program),<sup>3</sup> and similar improper payments were described in another report on HHS' Low Income Home Energy Assistance Program (LIHEAP).<sup>4</sup>

The "Do Not Pay List" will allow Federal agencies to utilize technology to access eligibility information in a timely and cost effective manner. As we work to implement the requirements of this memorandum, we look forward to working with Congress to ensure that agencies have access to information and relevant databases, and technological resources and systems, which can help prevent improper payments before they occur.

#### *Payment Recapture Audits Memorandum*

While the Administration believes agencies must do everything possible to prevent and reduce improper payments, we also believe that when they do occur, agencies should do everything possible to recapture these payments. On March 10, 2010, the President issued a memorandum to agencies directing them to intensify and expand their efforts to recapture improper payments.<sup>5</sup> Under the Recovery Auditing Act, agencies were required to review contract outlays if their annual awards are over \$500 million. Many agencies hire contractors that use sophisticated software and tools to identify contract overpayments that could be recovered. In addition, other agencies review grant, benefit, and contract payments as part of their normal post-payment review process. Certain other programs – including Medicare – are also authorized to review payments and to recover any improper payments identified during these reviews. Through these and other methods, agencies are reviewing their payments and recapturing any improper payments identified.

The President's memorandum of March 10, 2010 directs agencies to intensify and expand these efforts. In accordance with the memorandum, we have set a goal of recovering at least \$2 billion in improper payments over the next three years, a significant acceleration from the previous several years. OMB is working with agencies to review current practices, reviewing the results of previous recapture audits performed on contract outlays, and reviewing the results of Medicare Recovery Audit Contractors to promulgate additional guidance for agencies that will describe best practices and ensure that agencies are doing as much as possible to identify and recapture improper payments, and to meet the recovery goal. In addition, the recently-enacted

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<sup>3</sup> Treasury Inspector General for Tax Administration, *Additional Steps Are Needed to Prevent and Recover Erroneous Claims for the First-Time Homebuyer Credit*, June 17, 2010.

<sup>4</sup> Government Accountability Office. *Low-Income Home Energy Assistance Program: Greater Fraud Prevention Tools are Needed*, June 2010.

<sup>5</sup> The Presidential memorandum of March 10, 2010 can be viewed on the White House's website at: <http://www.whitehouse.gov/the-press-office/presidential-memorandum-regarding-finding-and-recapturing-improper-payments>



Improper Payments Elimination and Recovery Act (Pub.L. 111-204) will also significantly expand agency efforts to recapture improper payments by lowering the threshold for conducting recovery audits and expanding their scope to payments beyond contracts.

### *The Affordable Care Act*

As you know, Federal health programs are a major driver of government-wide improper payments, and HHS' programs accounted for nearly 60% of government-wide improper payments in FY 2009. To address this problem, the President recently announced an ambitious and aggressive goal to reduce improper payments in the Medicare fee-for-service program by 50%, from 12.4% to 6.2%, by FY 2012. We will achieve this goal through many of the initiatives I have already described, as well as through the provisions contained in the new health reform law.

The Affordable Care Act was recently signed into law and the White House and the Office of Management and Budget are working with Federal agencies to implement this historic legislation. While the new law contains many important provisions to extend and improve health care for millions of Americans, it also has several provisions designed to prevent and detect fraud and abuse, to identify and recover improper payments, and to penalize those who commit fraud or abuse, in Medicare, Medicaid, and the Children's Health Insurance Program (CHIP).

These provisions include:

- Providing the Secretary of HHS with new authorities to increase screening of providers and suppliers before they enroll in Medicare, Medicaid, or CHIP and to conduct oversight directly after they enroll; and to implement temporary moratoria on new providers in high-risk areas to combat waste, fraud, and abuse;
- Increasing data sharing between Federal agencies – like HHS' Centers for Medicare and Medicaid Services (CMS), SSA, the Department of Defense, and the Department of Veterans Affairs – to detect and investigate potential fraud and abuse throughout Federal health programs;
- Expanding the Recovery Audit Contractor program from Medicare Parts A and B to also include Medicare Parts C and D and Medicaid; and
- Enhancing civil and criminal penalties for Federal health care fraud and false claims.

The Administration is currently working across agencies to implement these and other program integrity provisions included in the new law.

### *Partnership Fund for Program Integrity Innovation*

A fifth initiative that I would like to highlight is the Partnership Fund for Program Integrity Innovation. The FY 2010 Consolidated Appropriations Act (Pub.L. 111-117) allocated \$37.5 million for the Partnership Fund for Program Integrity Innovation (the Partnership Fund). The purpose of the Partnership Fund is to identify ways to improve service delivery, payment accuracy, and administrative efficiency, while also reducing access barriers to Federal assistance programs and protecting beneficiaries. The Partnership Fund will accomplish these goals by funding innovative pilots at the state and local level that will be rigorously evaluated to determine their effectiveness in meeting these goals.

We have made significant progress since the Partnership Fund's inception. In January, we established a website, [Partner4Solutions.gov](http://Partner4Solutions.gov), where anyone can submit pilot ideas. In this short time, we have received 59 ideas from both public and private stakeholders. Ideas are beginning to coalesce around common themes, such as using data matching to reduce improper payments, standardizing Federal benefits applications to improve service and efficiency, expanding information technology systems and physical benefits service locations that offer access to multiple Federal programs through a single encounter, and testing new reimbursement processes to incentivize State participation. We are working directly with the Federal agencies through a Federal Steering Committee, and have also engaged a number of states and other organizations representing key stakeholder interests. We are working now to engage these and other organizations as part of a collaborative forum to generate and refine concepts. We expect this forum to form working groups around specific pilot ideas that can be presented to OMB and the Federal Steering Committee for consideration. I am very excited about this promising program and the potential improvements and savings that we expect to be generated in the near future.

#### *Pre-payment and Post-payment Reviews*

A final area I would like to highlight is the government's use of technology to identify and prevent improper payments and fraud. Specifically, an increasing number of agencies are using data mining and other business intelligence tools to look across programs and to identify errors that can either be prevented before they are made, or recovered if they are made.

For instance, CMS, the HHS agency which administers Medicare, Medicaid, and CHIP, uses prepayment analytic software to identify payments with characteristics that are outside the norm, such as duplicate payments, overpayments in general, and a large number of payments to one provider. This review helps the agency establish a profile of the type of payments that should trigger an intensified review. In addition, the Department of Defense (DoD) has prevented more than \$700 million in improper payments to vendors over the past 2 years through the deployment of their Business Activity Monitoring (BAM) tool. BAM is an analytical tool that assists DoD in flagging potential improper payment transactions before they are completed and the money is spent. Lastly, the Recovery Accountability and Transparency Board (RATB) has deployed a cutting-edge fraud mapping tool that leverages the latest technologies in data capture and analytics to identify potential fraud and error. The RATB has pioneered and refined the tool, and its use is one of the reasons why fraud and abuse in Recovery Act funds has been much lower than most people expected. Earlier this summer, we announced that we are starting to roll out this innovative tool for use across government. We are first piloting the tool at CMS, a natural place to start since Medicare and Medicaid combined had about \$65 billion in improper payments in FY 2009 – including about \$47 billion in Medicare alone.

#### **Conclusion**



The problem of improper payments is not new; to the contrary, it has likely affected Federal agencies since the founding of the Republic. Under this Administration, Federal agencies are renewing and improving their efforts in this area.

In addition, States and Federal agencies have been implementing initiatives designed to reduce improper payments for at least the last decade, if not longer. This experience has helped us identify practices that work to prevent improper payments, such as pre-payment reviews using new software and technology, and the use of third-party databases to verify eligibility for benefits or payments. In addition, it is also imperative that we share best practices on how to recapture improper payments when they do occur. Moving forward, one of my goals is to ensure that Federal and State agencies share these best practices with each other, and we are working to do so by improving collaboration and bringing together different agencies and offices within agencies.

Whereas Federal agencies have traditionally taken a siloed approach to addressing improper payments – e.g. the financial managers try to implement changes without talking to programmatic staff, or Federal and state agencies work independently of each other – I believe the results of the last six years show that this approach has limited impact. Accordingly, I am excited that many of the initiatives under way – including the implementation of Executive Order 13520– have already helped to foster collaboration by bringing together representatives from different parts of agencies, from different agencies, and from different levels of government, to identify best practices and share information on efforts that have helped to improve payment accuracy and our government’s financial management.

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