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before the
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Subcommittee on Government Organization, Efficiency and Financial Management

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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;

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[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

[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

[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

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[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.