UPDATE ON IMPROPER PAYMENTS

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Discussion Points

- Improper payments definition and causes
- Laws and authoritative guidance
- Fiscal year 2013 improper payment estimates
- Annual IPERA compliance reports
- What is needed going forward
What Are Improper Payments?

- An improper payment is any payment that should not have been made or was made in an incorrect amount (including overpayments and underpayments).

- For example, improper payments include:
  - duplicate payments to a contractor;
  - payments to an ineligible recipient; and
  - incorrect amounts paid to a beneficiary.
  - payments for which insufficient or no documentation was found.
Causes of Improper Payments

- There are many root causes for improper payments. OMB has grouped the causes into 3 categories:
  - Documentation and administrative
  - Authentication and medical necessity
  - Verification

- OMB plans to expand on these categories in its revision to Appendix C of Circular A-123.
Laws Related to Improper Payments

- **The Improper Payments Information Act of 2002 (IPIA)**
  - Requires agencies to annually review programs, estimate improper payments, and report on actions to reduce them.

- **The Improper Payments Elimination and Recovery Act of 2010 (IPERA)** expanded on IPIA by:
  - Providing more guidance on risk assessment;
  - Requiring estimates to be statistically valid;
  - Lowering the threshold for programs that must perform recovery audits to $1 million in annual outlays; and
  - Requiring IGs to annually determine compliance with key criteria listed in IPERA.
The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA):

- Requires agencies to include all identified improper payments in the reported estimate, regardless of whether the improper payment in question has been or is being recovered;
- Requires OMB to determine current and historical rates of recovery of improper payments, as well as targets for improper payment recovery; and
Laws Related to Improper Payments

- IPERIA (Cont’d):
  - Amends IPIA to require OMB to annually designate a list of “high-priority programs,” which will be subject to additional reporting requirements and oversight by agency Inspectors General;
  - Clarifies that payments to federal employees are subject to IPIA risk assessment and, where appropriate, improper payment estimation;
Laws Related to Improper Payments

- The Disaster Relief Appropriations Act of 2013
  - Provided approximately $50 billion, before sequestration, to select federal agencies for expenses related to the consequences of Hurricane Sandy.
  - The act requires that all funds provided through the act be deemed “susceptible to significant improper payments.”
  - Therefore, agencies must estimate improper payments for all funding received through the act.
Office of Management and Budget’s Role in Managing Improper Payments

- OMB plays 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.
  - OMB issued its implementing IPERA guidance on April 14, 2011 – Parts I and II, Appendix C of Circular A-123.
  - OMB is revising Circular A-123/Appendix C
Improper Payment Estimates
Fiscal Year 2013

- The $105.8 billion in estimated federal improper payments reported for fiscal year 2013 was attributable to 84 programs across 18 agencies.

- The 5 programs with the highest dollar estimates accounted for about $82.9 billion, or 78% of the total estimated improper payments agencies reported for fiscal year 2013.

- The 5 highest error rates reported for fiscal year 2013 ranged from 15.7% to 25.3%.
Improper Payment Estimates Program Distribution - Fiscal Year 2013

- **Medicare Fee-for-Service**: 34%
- **Earned Income Tax Credit**: 14%
- **Medicaid**: 13%
- **Medicare Advantage (Part C)**: 11%
- **Unemployment Insurance**: 6%
- **All Other Programs**: 22%
- **Other Programs**: 11%

11%
## Top 5 Improper Payment Estimates by Dollar Amount - Fiscal Year 2013

<table>
<thead>
<tr>
<th>Program</th>
<th>Agency</th>
<th>Reported Improper Payment Estimates</th>
<th>Dollars (in billions)</th>
<th>Error Rate (percent of outlays)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Fee-for-Service</td>
<td>Health and Human Services</td>
<td></td>
<td>$36.0</td>
<td>10.1%</td>
</tr>
<tr>
<td>Earned Income Tax Credit</td>
<td>Treasury</td>
<td></td>
<td>$14.5</td>
<td>24.0%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>Health and Human Services</td>
<td></td>
<td>$14.4</td>
<td>5.8%</td>
</tr>
<tr>
<td>Medicare Advantage (Part C)</td>
<td>Health and Human Services</td>
<td></td>
<td>$11.8</td>
<td>9.5%</td>
</tr>
<tr>
<td>Unemployment Insurance</td>
<td>Labor</td>
<td></td>
<td>$6.2</td>
<td>9.3%</td>
</tr>
</tbody>
</table>
Root Causes – 5 Programs with Largest Dollar Amount Estimates in Fiscal Year 2013

- **Medicare Fee-for-Service** – Insufficient documentation, medically unnecessary services, and incorrect diagnosis coding.
- **Earned Income Tax Credit** – Improper income reporting and inability to authenticate qualifying child eligibility requirements, filing status, and eligibility in nontraditional and complex living situations.
- **Medicaid** – Eligibility errors, system pricing errors, insufficient documentation, diagnosis coding errors.
- **Medicare Advantage (Part C)** – Insufficient documentation to support diagnoses submitted by plans.
- **Unemployment Insurance** – Verification errors not detectable by agency procedures or that agency did not resolve properly.
### Top 5 Improper Payment Estimates by Error Rate - Fiscal Year 2013

<table>
<thead>
<tr>
<th>Program</th>
<th>Agency</th>
<th>Reported Improper Payment Estimates</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Error Rate (percent of outlays)</td>
</tr>
<tr>
<td>School Breakfast</td>
<td>Agriculture</td>
<td>25.3%</td>
</tr>
<tr>
<td>Earned Income Tax Credit</td>
<td>Treasury</td>
<td>24.0%</td>
</tr>
<tr>
<td>Disaster Assistance Loans</td>
<td>Small Business Administration</td>
<td>18.4%</td>
</tr>
<tr>
<td>State Home Per Diem Grants</td>
<td>Veterans Affairs</td>
<td>15.9%</td>
</tr>
<tr>
<td>School Lunch</td>
<td>Agriculture</td>
<td>15.7%</td>
</tr>
</tbody>
</table>
Root Causes – 5 Programs with Highest Error Rates in Fiscal Year 2013

- **School Breakfast** - Misclassification by schools of meal eligibility status of participating students and improper meal counting and claiming by schools and school districts.

- **Earned Income Tax Credit** - Improper income reporting and inability to authenticate qualifying child eligibility requirements, filing status, and eligibility in nontraditional and complex living situations.

- **Disaster Assistance Loans** – Failure to confirm eligibility of nonreal property included in business loan files and failure to justify economic injury eligibility determinations.

- **State Home Per Diem Grants** – Use of a paper-based manual, decentralized claims processing system and the lack of compliance with internal policies.

- **School Lunch** – Misclassification by schools of meal eligibility status of participating students and improper meal counting and claiming by schools and school districts.
Other Issues

- Not All Susceptible Programs Report Improper Payment Estimates
  - Example: HHS’s Temporary Assistance for Needy Families (TANF)

- Not All Susceptible Programs Included in Governmentwide Estimate
  - Example: DOT’s Federal Railroad Administration’s High-Speed Intercity Passenger Rail
The six criteria for compliance listed in IPERA are:

1. Published a PAR/AFR and any OMB-required materials on the agency website;
2. Conducted a program-specific risk assessments;
3. Published improper payment estimates for all programs;
4. Published programmatic corrective action plans in the PAR or AFR;
5. Published, and met, annual reduction, as required; and
6. Reported a gross improper payment rate of less than 10 percent for each program or activity.

Note: Appendix C of Circular A-123 adds one additional criterion for IG annual reviews:

7. Reported information on its efforts to recapture improper payments.
In their annual reports, inspectors general have reported deficiencies, such as:

- risk-susceptible programs that did not report improper payment estimates,
- estimation methodologies that were not statistically valid, and
- risk assessments that may not accurately assess the risk of improper payment.
What Is Needed?

- To determine the full extent of improper payments governmentwide and to more effectively recover and reduce them, continued agency attention is needed to:
  - properly identify susceptible programs;
  - develop reliable estimation methodologies;
  - report on improper payments as required; and
  - implement effective corrective actions based on root causes.