

UPDATE ON IMPROPER PAYMENTS

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Discussion Points

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- ❑ 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?

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- 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

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- 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

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- **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.



Laws Related to Improper Payments

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- **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
 - Gives statutory authority for the Do Not Pay Initiative.



Laws Related to Improper Payments

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□ 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

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- **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

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- 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

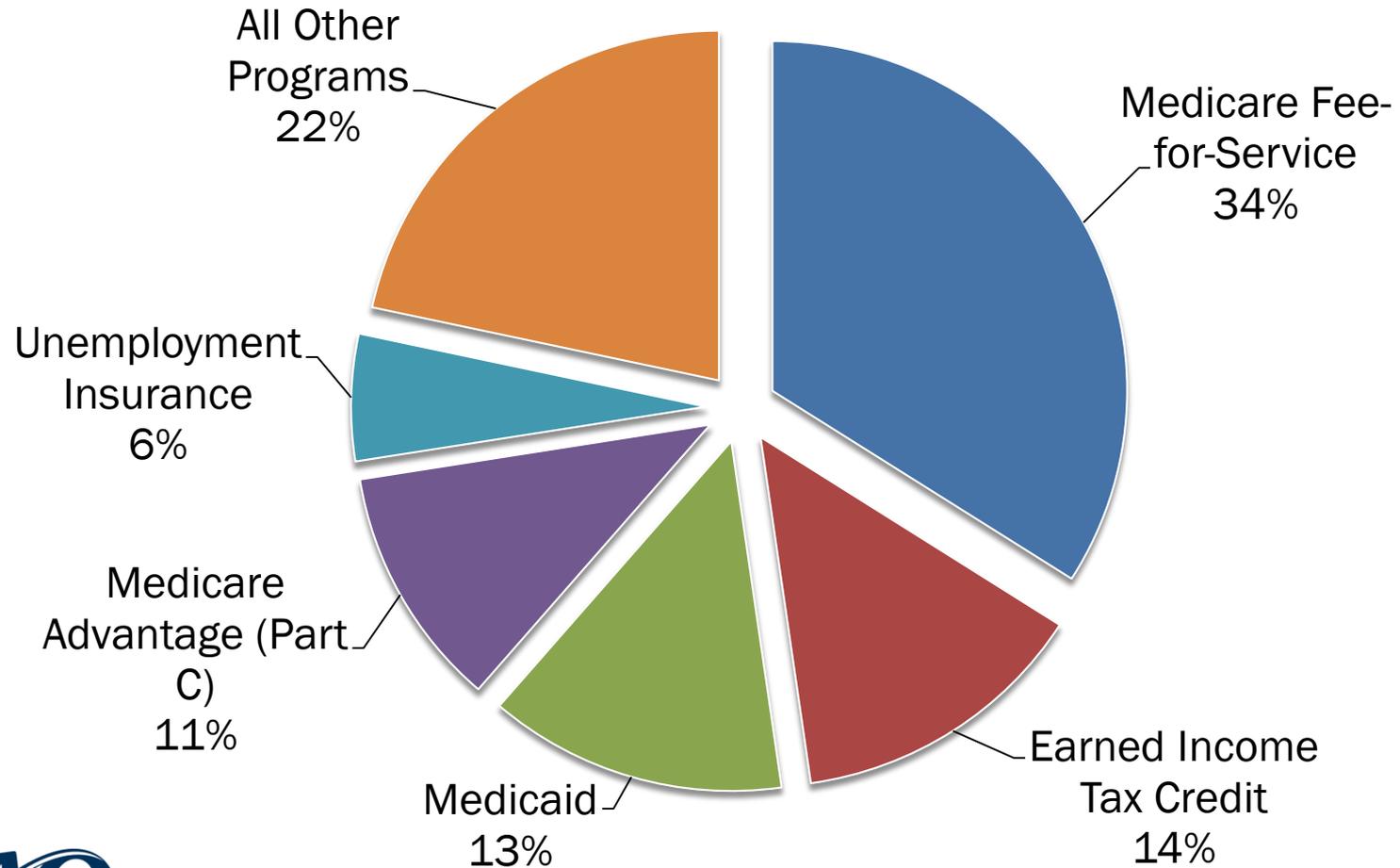
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- The \$105.8 billion in estimated federal improper payments reported for fiscal year 2013 was attributable to 84 programs across 18 agencies.
- The 5 programs with the highest dollar estimates accounted for about \$82.9 billion, or 78% of the total 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

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

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Program	Agency	Reported Improper Payment Estimates	
		Dollars (in billions)	Error Rate (percent of outlays)
Medicare Fee-for-Service	Health and Human Services	\$36.0	10.1%
Earned Income Tax Credit	Treasury	\$14.5	24.0%
Medicaid	Health and Human Services	\$14.4	5.8%
Medicare Advantage (Part C)	Health and Human Services	\$11.8	9.5%
Unemployment Insurance	Labor	\$6.2	9.3%



Root Causes – 5 Programs with Largest Dollar Amount Estimates in Fiscal Year 2013

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- **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

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Program	Agency	Reported Improper Payment Estimates	
		Error Rate (percent of outlays)	Dollars (in millions)
School Breakfast	Agriculture	25.3%	\$831.0
Earned Income Tax Credit	Treasury	24.0%	\$14,500.0
Disaster Assistance Loans	Small Business Administration	18.4%	\$121.1
State Home Per Diem Grants	Veterans Affairs	15.9%	\$135.2
School Lunch	Agriculture	15.7%	\$1,774.0



Root Causes – 5 Programs with Highest Error Rates in Fiscal Year 2013

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- **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

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- 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



Annual Inspector General Reviews under IPERA

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- **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.



Annual Inspector General Reviews under IPERA

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- 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?

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- 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.

