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U.S. HOUSE OF REPRESENTATIVES

# COMMITTEE ON THE BUDGET

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## **Budgeting to Fight Waste, Fraud and Abuse**

On July 17, 2007, the House Budget Committee held a hearing titled “Budgeting to Fight Waste, Fraud, and Abuse.” The purpose of the hearing was to develop a better understanding of the source, extent and cause of improper payments, taxpayer evasion and noncompliance. The hearing also examined how federal agencies intend to use additional enforcement resources provided in the budget resolution to combat this and the anticipated return on investment for these activities. Below are some of the highlights from the hearing.

**Government Incurs Large Losses Due to Improper Payments, Waste and Taxpayer Non-Compliance** – In 2006, according to information reported to Office of Management and Budget, federal agencies made over \$40 billion in improper payments. Medicare fee-for-service alone accounted for \$11 billion in erroneous payments. Similarly, the “tax gap” (that is, the gap between taxes owed and those collected) was estimated at \$345 billion for tax year 2001. To address this, the 2008 budget resolution contained a series of “cap adjustments” -- additional, dedicated enforcement resources provided through appropriation bills to help federal agencies crack down on waste, fraud and abuse.

**Medicare Fraud is Worrisome and Well Organized** – Secretary Leavitt testified that Medicare fraud, “is very sophisticated, it seems wide-scale and it is clear...that it is not just small time operators... There’s always someone behind it, and I believe it is organized, and they are recruiting people to become essentially their fronts. They pay them a small amount of money. Then they use their name, they direct them, and so the people who are the fronts only see a small amount. It’s generally a fee for the use of their persona, and then those who are behind it who are really doing it all are never seen or heard.”

**Very High Returns to Investing in Fraud Prevention** – Though subject to diminishing returns, Secretary Leavitt believes, “we will recover 13 to 15 times the investment...and, I feel not just optimistic -- I feel certain that the return on the investment will be extraordinarily high.”

Tim Hill, the Center for Medicare and Medicaid Service’s Chief Financial Officer, testified that some of the ground floor initiatives and on-site visits “have ratios closer to 100 to one.”

**Specific Regional Initiatives Are Having an Effect** – In South Florida the Office of the Inspector General has begun Operation Whack-a-Mole, a concerted multi-organizational effort to eliminate Medicare supply abusers. The project incorporates a wide range of strategies to address systemic vulnerabilities in the Medicare program, as well as fraud schemes that appear to have permeated certain health care sectors in South Florida.

It has already had a significant impact on the integrity of the Medicare program. To date, the project has recovered over \$11 million, and has resulted in 43 indictments and one plea agreement, and the revocation of supplier identification numbers of almost 500 durable medical equipment, prosthetics, and orthotics suppliers for not meeting minimal standards of participation.

**Long Way to Go to Close Tax Gap** – Even when enforcement collections and other late payments were factored in, the IRS estimate of the net tax gap is still \$290 billion. Underreporting – the failure to report one’s full tax liability – constitutes 82 percent of the gap.

**Budget Resolution Cap Adjustment Will Help Reduce Tax Gap** – In response to growing concerns about the tax gap and consistent with the President’s budget, the 2008 budget resolution contained a cap adjustment that accommodates an additional \$406 million for IRS if certain program integrity initiatives are included in the 2008 appropriations bill. IRS has indicated that it will use these funds to increase front-line enforcement resources, implement legislative and regulatory changes, and expand the research program.

**Continuing Disability Reviews (CDR) and Redeterminations are Critical to the Social Security Administration’s Ability to Correct and Reduce Improper Payments** – CDRs are periodic reevaluations of medical eligibility for Disability Insurance (DI) and Supplemental Security Income (SSI) benefits. SSI redeterminations assess non-medical eligibility factors such as income. While very few individuals (less than 1 percent of all beneficiaries) are found as a result of CDRs to be receiving benefits improperly, conducting these reviews results in significant savings to the federal budget. For example, Stephen Goss, SSA’s Chief Actuary, testified that “the expected present value of future program savings, which is reported by SSA annually in reports to Congress, has remained close to \$10 in program savings for every \$1 spent on continuing disability reviews.” According to this ratio, the 2008 budget resolution’s discretionary funding cap adjustment allowing a \$213 million investment would net a reduction of approximately \$2 billion in overall program costs.

**New York State Results for Reemployment Program Exceed Expectations** – The budget resolution provides a \$40 million cap adjustment for the state unemployment insurance program to expand funding for in-person reemployment and eligibility interviews. The goal is to better connect job seekers with specialized services and assess continuing eligibility in order to help people return to work more quickly and reduce the amount of time they need unemployment benefits, generating savings for state and federal unemployment trust funds.

New York operates a 3-county demonstration project under the small current Labor Department grant program. M. Patricia Smith, New York’s Labor Commissioner, testified that this program has generated a return on investment of 250 percent, achieved a two-week reduction in the average duration of benefits -- which is double the original goal-- and that the state believes that expanding the program would generate similar savings in the rest of the state.