



Opening Statement
Ranking Member: Permanent Subcommittee on Investigations
Hearing On
Medicare Doctors Who Cheat on Their Taxes and What Should Be Done About It
March 20, 2007

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AS PREPARED

Mr. Chairman,

Let me start by thanking you for your active participation in our three-year effort to expose tax cheats who receive billions of dollars from the American taxpayer. It has been a truly bipartisan effort and I look forward to continuing this important oversight with you.

Today, we turn our attention to tax-cheats in the Medicare system. In particular, we have found that more than 21,000 doctors and related service providers, who receive billions of dollars in Medicare payments every year, owe an estimated \$1.3 billion in back-taxes. To make matters even worse, \$430 million of this outstanding tax debt is composed of unpaid payroll taxes. That means that many of these tax-deadbeats are cheating the system by withholding payroll taxes from their employees' paychecks, but failing to pay those taxes to the government. Instead, they are keeping their employees' taxes for their own use. So, not only are they cheating the government, they are in a sense stealing from their own employees as well – to the tune of \$430 million.

As if that is not bad enough, these tax-cheats are not exactly paupers – to the contrary, they are living the good life. We will hear testimony about 50-foot yachts, multi-million dollar mansions, vacation homes, million-dollar gambling habits, and personal airplanes – all at the expense of the American taxpayer.

Some of these tax-cheats have been previously convicted for defrauding the government, money laundering, and tax evasion. Some have had hospital privileges revoked, been disciplined by various state medical boards, investigated by state Medicaid fraud boards, and some have even been previously excluded from Medicare. Yet they continue to receive substantial payments from Medicare every year.

Let me share a handful of disturbing examples to illustrate the problem.

- One ambulance company received more than \$1 million from Medicare in just the first 9 months of 2005 and it owed more than \$11 million in back-taxes.

- One doctor has refused to pay federal income taxes since the 1970s and now owes more than \$3 million in unpaid federal taxes and more than \$1 million to another federal agency. He was paid approximately \$100,000 by Medicare in the first nine months of 2005. He tried to hide his assets by attempting to transfer his property to his children.

- Another physician who owes more than \$1 million, primarily in payroll taxes, received more than \$1 million from Medicare between January and September 2005. He flaunted his illegally gained windfall with a million-dollar home, a 58-foot yacht, and several night clubs.
- Another physician whose medical license is on probation owes more than \$400,000 in unpaid federal taxes. Despite this debt, he found the means to purchase a luxury vehicle predominantly with cash, deposit tens of thousands of dollars in cash in such a way as to avoid mandatory reporting to the IRS, and gamble away millions of dollars. Although he did report more than \$600,000 in net profits for two recent years, he still managed to fall behind in his child support payments by tens of thousands of dollars and to default on the installment agreement he entered into with the IRS.

Unfortunately, the list goes on and on. Worse, as if failing to pay their taxes was not a sufficient insult to American taxpayers, Medicare doctors also owe \$33 million in child support, \$27 million in unpaid student loans, \$114 million owed to other federal agencies, and \$22 million in unpaid state income taxes.

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All of this raises some important questions. The first question is obvious: How did this happen? The best-case scenario is that this is a disappointing situation of the left hand not knowing what the right hand is doing. On one hand, we have the Centers for Medicare and Medicaid Services paying doctors to keep the Medicare program running smoothly; on the other hand, we have the IRS trying to recoup substantial tax debts from many of those very same doctors.

But that's only the best-case scenario; I fear the reality is worse. The federal government created the Federal Payment Levy Program in 2000 to target government payments to tax-deadbeats and levy those payments to recover the unpaid taxes. The levy program was designed to put an end to this very problem.

The Government Accountability Office specifically recommended that CMS confer with the IRS and FMS to figure out how to get Medicare payments into the levy program. That recommendation came in six years ago – in 2001 – so it is clear that CMS and the other agencies have been “on notice” about this very issue for years. Yet, CMS still isn't participating in the program.

As a result, we have lost countless opportunities to levy Medicare payments made to tax-delinquent doctors and other suppliers. The GAO estimated that, if CMS had participated in the levy program, the government could have recouped anywhere from \$50–140 million from these Medicare tax-cheats.

And that was just in the first nine months of 2005 alone. Imagine how many hundreds of millions of dollars could have been recovered if CMS had started participating in the levy program at its inception in 2000. Why are we still struggling with this issue – nearly seven years after the levy program began and six years after GAO's recommendation? Why did CMS wait until February 2007, just a few weeks before this hearing, to take an active interest in joining the levy program? I intend to put those very questions to CMS, IRS and FMS and get to the bottom of the problem.

But we are not in the blame business – we are in the problem-solving business. So the paramount question is how to fix this mess. Make no mistake: these are complex problems, but I am confident that we can fix them. We have faced many similarly complicated problems throughout this investigation, and we have overcome them one-by-one. For instance, when we began the effort in 2004, a mere fraction of the payments from the Defense Department to its contractors were checked for tax debt and making improvements seemed daunting. Just two years later, however, 99% of all DOD payments are now checked for levies. And this has led to substantial results, as collections from tax-delinquent DOD contractors have jumped dramatically in just two years – from roughly \$1 million in Fiscal Year 2003 to more than \$26 million in Fiscal Year 2006.

Moreover, government-wide tax debt collections have increased by almost \$281 million over the past two years alone.

Similarly, we are overcoming problems in getting other federal agencies to participate in the Federal Payment Levy Program. For instance, the United States Postal Service and the Army Corps of Engineers have successfully joined the Program and their payments will be checked for levies beginning in June of this year. So we have dealt with thorny problems in the past, and I am confident we will have similar success in addressing the problems now confronting Medicare payments. In fact, I understand that CMS has already expressed a willingness to make changes to lay the foundation to ensure that its payments will be checked for levies and we will no longer lose opportunities to recover unpaid tax debts. I look forward to the testimony from CMS, IRS and FMS on what changes need to be made and what we can do to make those changes quickly.

In closing, I should reiterate our profound appreciation of the hard work and dedication of GAO's Financial Forensic Audit and Special Investigations Unit, who have provided this Subcommittee with invaluable assistance. I also recognize the diligence and determination of the Commissioner of IRS, the Administrator of GSA, the Secretary of Defense, and the Commissioner of the Financial Management Service, whose support led to the establishment of the Federal Contractor Tax Compliance Task Force. The Task Force has addressed and resolved numerous problems that inhibit the levy process. It is painstaking work, but it is showing real, tangible results.

We are also grateful that the Postmaster General and the Commanding General of the Army Corps of Engineers have directed their respective agencies to join the Federal Payment Levy Program voluntarily. I appreciate all of their hard work and I applaud their successes. I look forward to the testimony today.

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Medicare Benefits 2005

