Cross-Agency Priority Goal: Improper Payments
Q4 Status Update

Cross-Agency Priority Goal Statement

Improper Payments: The Federal Government will achieve a payment accuracy rate of 97 percent by the end of 2016.

Goal Leader

Danny Werfel, Controller, Office of Management and Budget.

About this document

The Cross-Agency Priority (CAP) Goals were a key innovation introduced in the FY2013 Federal Budget. These goals focus on 14 major issues that run across several Federal agencies. Each of these historic goals has a Goal Leader who is a senior level White House official and is fully accountable for the success and outcomes of the goal.

Historically, areas of shared responsibility for multiple government agencies have been resistant to real progress. Success in these areas requires a new kind of management approach – one that brings people together from across and outside the Federal Government to coordinate their work and combine their skills, insights, and resources. The CAP Goals represent the President's priorities for which this approach is likeliest to bear fruit. Taken together, they comprise the Federal performance plan.

This report discusses one of these CAP Goals, the Improper Payments Goal, in detail, describing the plan for achieving the goal and the current status of progress. To see the full list of CAP Goals and to find out more about them, we encourage you to visit performance.gov.

Contents

Overview

Improper payments are payments made by the government to the wrong entity, in the wrong amount, or for the wrong reason. Although not all improper payments are fraud, and not all improper payments represent a loss to the government, all improper payments degrade the integrity of government programs and compromise citizens' trust in government. This Administration has made it a top priority to significantly reduce the government-wide error rate.

When the President took office in 2009, payment error rates were on the rise. In fiscal year (FY) 2009, the government-wide improper payment rate was 5.42 percent. Since then, this error rate has been declining, down to 5.29 percent in FY 2010, 4.69 percent in FY 2011, and 4.35 percent in FY 2012. Based on reduction targets set by the agencies, the government-wide improper payment rate is on a trajectory to decline to 3 percent in FY 2016. Therefore, by the end of FY 2016, no less than **97 percent** of all government payments will be accurate. Historical data over the past three years show that each percentage improvement in our accuracy rate equates to roughly $44 billion in improper payments avoided. Interestingly, there are some principles of accounting that point to a 3-percent error rate as a key threshold or target for materiality. Thus, our new goal ensures that tens of billions of dollars in improper payments will be avoided, while also employing a common rule of thumb used by private and public sector accounting professionals.

Strategies

Under the direction of the Office of Management and Budget (OMB), agencies are intensifying their efforts to reduce improper payments. The key to identifying and reducing improper payments at the program level is to better measure the extent of the problem and understand why improper payments occur. Once an agency measures and reports program errors, it is able to implement appropriate corrective actions to reduce errors in subsequent years. The government can achieve the greatest return on investment for the taxpayer by focusing efforts on reducing improper payments in the highest-risk programs, otherwise known as "high-error" programs (which account for the majority of government-wide improper payments).

The following is a list of targeted actions this Administration has taken to aggressively combat improper payments:

- November 20, 2009: The President signed Executive Order 13520, Reducing Improper Payments, in order to reduce improper payments by increasing transparency and improving agency accountability.
- March 10, 2010: The President issued a memorandum, Finding and Recapturing Improper Payments, directing agencies to intensify and expand their efforts to recover improper payments that are made by agencies.
- June 18, 2010: The President issued a memorandum, Enhancing Payment Accuracy Through a "Do Not Pay List," directing agencies to check the appropriate databases to ensure that the recipients of Federal awards and payments are eligible to receive them. OMB followed this with an April 2012 memorandum to all agencies directing them to use the Do Not Pay tool.
- July 22, 2010: The President signed into law the Improper Payments Elimination and Recovery Act (IPERA) to ensure agencies are cutting down on waste, fraud and abuse, and to help agencies recover improper payments when they do occur.

Progress Update

Agencies provide improper payment estimates on an annual basis, per the Improper Payments Elimination and Recovery Act (IPERA) of 2010. In FY 2009, the government-wide improper payment rate was at an all-time-high of 5.42 percent. Since then, this error rate has been declining, down to 5.29 percent in FY 2010, 4.69 percent in FY 2011, and 4.35 percent in FY 2012. By reducing the government-wide improper payment rate since FY 2009, Federal agencies avoided a significant amount of error from being made. Had the error rate not declined as much as it has in the last three years, the government would have made an additional $47 billion in improper payments in FYs 2010, 2011, and 2012 combined.

Notably, when Department of Defense commercial payments are factored in, the total for improper payments avoided over the three years jumps to nearly $70 billion, and the government-wide error rate falls to 3.7 percent. While including these new amounts can make year-to-year comparisons more complex, it is a more comprehensive snapshot of today's government-wide error rate.

One of the programs with the highest error rates and amounts is the Unemployment Insurance (UI) program. In response, the U.S. Department of Labor recently partnered with the New York Department of Labor to establish a UI Integrity Center of Excellence. New York has been a leader in combating improper payments in UI, and has made significant strides in recovering millions of dollars in fraudulent UI payments. This new Center will build upon these efforts and drive collaborative work with the Labor Department and other states to develop and implement innovative integrity strategies that can be used by state UI programs to combat improper payments, and build capacity nationally to use data analytics and predictive modeling more effectively to support integrity efforts. The Center will leverage data analytics to identify the characteristics of claimants that commit fraud and create a methodology to act on those leads quickly to prevent, detect, and recover improper payments more effectively. The Center is structured to reflect the Federal-State partnership that is the foundation of the UI program. All states will benefit from the strategies and tools developed and made available through the Center, creating greater efficiency, improving operations, and saving millions of taxpayer dollars.

Another important initiative worth highlighting is the Do Not Pay program, a centralized data-matching service launched in April 2012. Do Not Pay is run by the Department of the Treasury and allows agencies to review multiple databases to determine a recipients' award or payment eligibility. Databases reviewed may include:

- Death Master File
- Excluded Parties List System
- Debt Check Database
- List of Excluded Individuals/Entities
- The Work Number
- Central Contractor Registration

A Data Analytic Service has been developed, in addition to the data-matching service, to provide customized matching and analysis of an agency's payment file to identify irregularities and fraud. Treasury is also developing new data analytic approaches to assess the relative risk level of those who are identified as suspect through the Do Not Pay tool and working to standardize disbursement data, making it easier to perform computer matching and trend analysis.

Information about the two efforts described above can also be found in the presentation made at the October 12, 2012 meeting of the President's Management Advisory Board.

Indicators

Measure 1: Government-wide Error Rate (reported annually)

Milestones Accomplished to Date

Quarter	Milestone	Status
Q1 – FY 2010	The President signed Executive Order 13520, *Reducing Improper Payments*	OMB issued implementing guidance in March 2010; agencies are implementing requirements.
Q2 – FY 2010	The President issued a memorandum, *Finding and Recapturing Improper Payments*	OMB issued implementing guidance in November 2010; agencies are implementing requirements.
Q3 – FY 2010	The President issued a memorandum, *Enhancing Payment Accuracy Through a "Do Not Pay List"*	OMB issued implementing guidance in April 2012; agencies are implementing requirements.
Q4 – FY 2010	The President signed into law the Improper Payments Elimination and Recovery Act (IPERA)	OMB issued implementing guidance in April 2011; agencies are implementing requirements.
Q4 – FY 2012	Achieve the President's goal of avoiding $50 billion in improper payments between FYs 2010 and 2012	The government has so far avoided over $47 billion in improper payments over the past three years, almost hitting the President's goal.
Q4 – FY 2012	Achieve the President's goal of recapturing $2 billion in overpayments to contractors between FYs 2010 and 2012	The Administration exceeded this goal by more than double, recapturing a record $4.4 billion in overpayments to contractors over the last three years.

Next Steps

- To reflect lessons learned through this effort and new approaches moving forward, the Administration will likely establish a new Cross Agency Priority goal in this area.

Future Actions

- The lifecycle of the goal is FY 2009 through FY 2016. Achieving a payment accuracy rate of 97 percent will depend on the corrective actions carried out by agencies and their work to meet future error rate reduction targets, which will be published in November 2012, November 2013, November 2014, November 2015, and November 2016.
- FY 2013: Issue guidance to agencies on establishing internal controls over improper payments. This is an IPERA requirement, and OMB is still working on developing this guidance.
- FY 2013: Issue guidance to help agencies implement IPERA requirements. IPERA expanded payment recapture audits to all types of payments and activities with more than $1 million in annual outlays.
- Ensure implementation of the Do Not Pay List for targeted CFO Act agencies.
- Establish effective oversight to support the planning and execution of the Department of Labor (DOL) Program Integrity Center (PIC) to ensure the center builds the capacity to transfer best practices nationwide and utilizes the Do Not Pay List by June 30, 2013.

Contributing Programs and Other Factors

This goal applies to all programs that annually report improper payment estimates. The government-wide performance is driven by programs that make a significant amount of improper payments every year. More than 75 programs contribute to the government-wide improper payment amount. Roughly 80 percent of the total improper payment amount was made by five programs: Medicare Fee-for-Service, Medicaid, and Medicare Advantage (Part C), within the Department of Health and Human Services; the Earned Income Tax Credit, within the Department of the Treasury; and Unemployment Insurance, within the Department of Labor. The remaining 20 percent of the government-wide improper payment amount was made by all the other programs that reported improper payment estimates.

Additional References

Payment Accuracy:
http://paymentaccuracy.gov

Performance.gov information on Improper Payments:
http://finance.performance.gov/initiative/improper-payment/home

Department of Treasury Do Not Pay List:
http://donotpay.treas.gov/