Federal Improper Payments

A Trillion-Dollar Drain on Government Programs

Unless government decision-makers move urgently to address the problem of improper payments, agency budgets will continue to hemorrhage—restricting spending options, adding to the federal debt, enriching criminals, and undermining public confidence. New agency leaders can better confront the problem by intentionally focusing on prevention and by leveraging more strategic, data-driven approaches.

A Case for Action

Agencies have identified more than $1 trillion in improper payments they have made since 2002—payments that either should not have been made or were made in the wrong amount. The estimate for FY 2015 alone is nearly $137 billion—an increase of $12 billion over the previous year—and this estimate reflects improper payments associated with only 125 out of hundreds of federal programs! Moreover, this estimate likely understates losses due to fraud. For comparison, the federal government's FY 2015 R&D budget, in its entirety, was $135 billion—almost the same as that year's improper payments.

From where do improper payments arise?

- Errors that applicants make (e.g., when program beneficiaries submit claims, taxpayers file tax returns, or contractors submit invoices)
- Errors that agencies make in processing submissions
- Fraud that applicants commit

While the largest totals of improper payments come from such healthcare programs as Medicare and Medicaid, from Social Security, and from the IRS's Earned Income Tax Credit, they can be found in virtually every agency, increasing mandatory spending at the expense of discretionary programs and thereby limiting options for investment in solutions for critical problems. These needless expenditures contribute to federal trust fund crises, raise the federal debt, and increase spending on interest to finance that debt. Without question, improper payments siphon off funds that are direly needed to serve the interest of the American public and, ultimately, undermine public confidence in government.

> **"Billions of dollars... taken away from hardworking people and then squandered through improper oversight or plain old irresponsibility"**
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> –SENATOR ORRIN HATCH, SENATE COMMITTEE ON FINANCE, HEARING ON IMPROPER PAYMENTS, 2015

Understanding the Problem

The problem has garnered considerable attention in recent years. Congress has enacted at least six statutes aimed at addressing aspects of the issue since 2002. Executive Orders, presidential memoranda, and Office of Management and Budget (OMB) guidance have been issued as well. Consequently, agencies have been making extensive efforts to estimate, report on, and mitigate improper payments in individual federal programs. Most recently, both the Fraud Reduction and Data Analytics Act of 2015 and the OMB July 2016 update

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to Circular A-123 direct agencies to ensure that their overall internal control systems adhere, with due consideration for relevance and appropriateness, to leading practices identified in the Government Accountability Office's "Framework for Managing Fraud Risks in Federal Programs."

While these efforts have yielded some positive results, much more remains to be done. Absent further determined action, a number of trends indicate that the problem will continue to grow. These trends include the following:

- Technology, while helpful in preventing and detecting improper payments, also introduces new vulnerabilities, including cybersecurity concerns.
- Agencies face an ever more sophisticated onslaught from those committing acts of fraud—a problem compounded by the increasing globalization of fraud and related financial crime.

Other issues, too, impact the federal government's ability to reduce improper payments:

- Insufficient recognition by leaders of the importance of the problem and its impact on their budgets.
- Inadequate root cause analysis, and a focus on detection and reactive measures (like chasing improper payments after the fact) rather than on proactive preventive steps.
- Impediments to verifying applicants' identity and eligibility. For example, determining eligibility is often complicated by inconsistent statutory definitions, legislative requirements for prompt payment, and program design issues that cause some agencies to rely on self-reporting by applicants.
- Challenges to the ability to leverage data analytics—critical to the overall solution—by data access and quality issues and by a lack of skilled personnel.

Areas of Opportunity

The Director of OMB should consider the following practical ideas as priorities for action within the first year of the new administration:

- **Tackle the problem systematically as a coordinated, cross-government effort with top leadership focus.** Establish a cross-government senior leadership group to set a "tone at the top" that emphasizes prevention of errors and deterrence of fraud rather than the current "pay and chase" model, to develop a cross-government strategy regarding improper payments that better balances stewardship of funds with mission accomplishment, and to promulgate policies that facilitate interagency collaboration and leverage public-private partnerships to attack the problem.
- **Address identity and eligibility issues strategically.** Propose legislation to update the Computer Matching and Privacy Protection Act of 1988 (P.L. 100-53) in order to facilitate increased interagency data sharing, which will improve the efficiency and effectiveness of identity and eligibility verification. Initiate pilot tests of alternatives for making identity and eligibility determination processes more rigorous, data driven, and cost-effective.
- **Strengthen data analytics capabilities across government.** Establish a shared research and analytics capability, available government-wide, that would enhance prevention and detection of improper payments, facilitate evaluation of alternatives for predictive and prescriptive modeling of future trends, and serve as an early warning system to help inform planning and prevention activities.

For further ideas about applying the guidance in this paper to your agency's particular needs, contact federaltransition@mitre.org.