

## Understanding Improper Payments:

### Sustaining and Renewing the Commitment to Ending Improper Payments

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## It's every taxpayer's nightmare



### **Improper payments**

- What they are
- What causes them
- How to analyze them
- How to prevent them

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## By the end of this session you will be able to do several tasks

1. Define improper payments and how they occur in government.
2. Describe the history of efforts to curb improper payments, new laws and strategies.
3. Explain an approach to helping clients prevent and reduce improper payments.
4. Understand trends and best practices.

## Define improper payments and how they occur

# 1

## Improper payment defined:

1. Should not have been made.
2. Made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments and underpayments.
3. Made to an ineligible recipient or for an ineligible service.
4. Duplicate payment.
5. Payment for services not received.
6. Additionally, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an error.

The term "payment" is defined by the Office of Management and Budget (OMB) Circular A-123 Appendix C guidance as any payment, including commitments for future payments, such as loan guarantee that is derived from Federal funds or other Federal sources; ultimately reimbursed from federal funds or resources; or made by a federal agency, a Federal contractor, a governmental or other organization administering a Federal program or activity.

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## Improper Payments are defined by law

- The Improper Payments Elimination and Recovery Act of 2010 (IPERA)
- OMB Circular A-123, Appendix C (OMB M-11-16)
  - Requirements for Effective Measurement and Remediation of Improper Payments
- Improper Payments Elimination and Recovery Improvement Act of 2013 (IPERIA)

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## Improper payments are "government's biggest problem"



- \$106 billion in FY 2013
- 18 agencies report 75 risk-susceptible programs.
- 94% of improper payments are in 13 high-error programs including Medicare and Medicaid

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## High-error programs

Program	Agency	Total Payments (outlays)	Improper Payment Amounts	Improper Payment Rates
Medicare Fee-for-Service	Department of Health and Human Services	\$357.4B	\$36.0B	10.1%
Earned Income Tax Credit (EITC)	Department of the Treasury	\$60.3B	\$14.5B	24.0%
Medicaid	Department of Health and Human Services	\$246.9B	\$14.4B	5.8%
Medicare Advantage (Part C)	Department of Health and Human Services	\$123.7B	\$11.8B	9.5%
Unemployment Insurance (UI)	Department of Labor	\$66.8B	\$6.2B	9.3%
Supplemental Security Income (SSI)	Social Security Administration	\$53.4B	\$4.3B	8.1%
Supplemental Nutrition Assistance Program (SNAP)	Department of Agriculture	\$74.6B	\$2.6B	3.4%
Retirement, Survivors, and Disability Insurance (RSDI)	Social Security Administration	\$770.3B	\$2.4B	0.3%
Medicare Prescription Drug Benefit (Part D)	Department of Health and Human Services	\$57.1B	\$2.1B	3.7%
National School Lunch Program (NSLP)	Department of Agriculture	\$11.3B	\$1.8B	15.7%
Rental Housing Assistance Programs	Department of Housing and Urban Development	\$30.9B	\$1.3B	4.3%
Pell Grants	Department of Education	\$32.3B	\$0.7B	2.3%
Children's Health Insurance Program (CHIP)	Department of Health and Human Services	\$9.1B	\$0.6B	7.1%

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## There are three main causes of improper payments

- Documentation and administrative errors
- Authentication errors
- Verification errors



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## The first cause is documentation and administrative errors

- Documentation and administrative errors
- Authentication errors
- Verification errors



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## The second cause is authentication and medical necessity errors

- Documentation and administrative errors
- Authentication errors
- Verification errors



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## The third cause is verification errors

- Documentation and administrative errors
- Authentication errors
- Verification errors



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## Here are some examples of how improper payments occur

- **Unemployment Insurance program**  
Job status not updated
- **Earned Income Tax Credit program**  
Two people claim the same child for tax credit
- **Medicaid**  
Applications in multiple states

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## Knowledge check 1

Which of the following is NOT one of the main causes of improper payments?

- A. Documentation and administration errors
- B. Authentication errors
- C. Fraud
- D. Verification errors

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## Knowledge check 1

Which of the following is NOT one of the main causes of improper payments?

- A. Documentation and administration errors
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- C. Fraud**
- D. Verification errors

## Legislation

2

## Legislative action began in 2002

### 2002 legislation

Improper Payments Information Act of 2002 (IPIA)

Recovery Auditing Act



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## Next was the Improper Payments Elimination and Recovery Act (IPERA)

### 2010 legislation

Improper Payments Elimination and Recovery Act (IPERA)



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## The Improper Payments Elimination and Recovery Improvement Act (IPERIA) was signed into law in 2013

### 2013 legislation

#### Improper Payments Elimination and Recovery Improvement Act (IPERIA)



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## IPERIA has 5 significant requirements



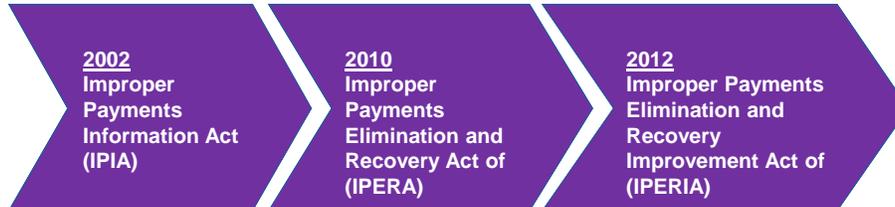
- High-priority programs
- Do Not Pay Initiative
- Federal employee payments
- Improper payments in reported estimates
- Recovery rates and targets

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## Review the chart comparing IPA, IPERA and IPERIA

### The evolution of Improper Payment legislation



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## Knowledge check 2

Which of the following is a primary focus of IPERIA?

- A. Preventing improper payments from being made before they occur
- B. Conducting risk assessments to identify high-risk programs within each agency
- C. Improving statistical sampling and extrapolation to ensure accurate annual improper payment estimates
- D. Expanding the scope of payment recapture audits for improper payments

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## Knowledge check 2

Which of the following is a primary focus of IPERIA?

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**Explain an approach to helping clients prevent and reduce improper payments.**

3

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## Investigate IG audit reports and findings of noncompliance

- Effective in FY 2011, Office of Inspector General (OIGs) were tasked with conducting compliance audits of their IPERA programs.
  - For the past three years, Grant Thornton practitioners conducted a review and analysis of the results of the OIG IPERA audits.
  - Audit reports for CFO Act agencies were reviewed, trends in compliance were summarized.

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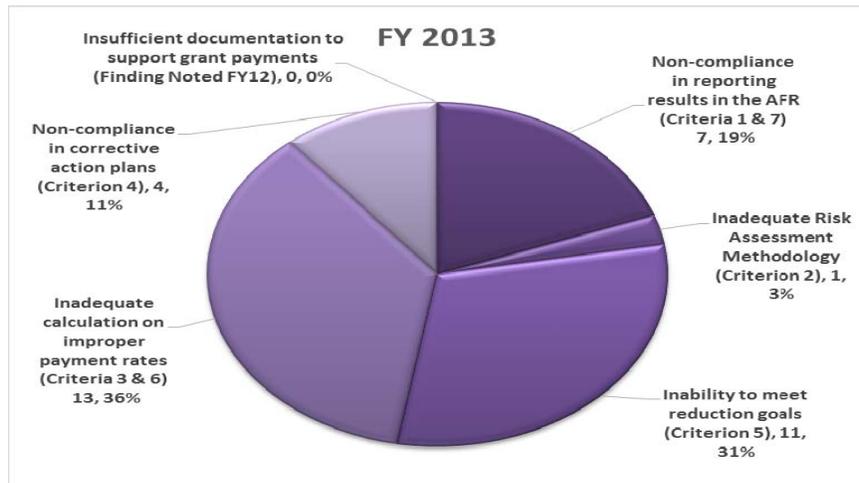
## Grant Thornton performed an OIG audit analysis of FY2013 agency IPERA compliance

Compliant (16%)	Compliant, but with Recommendations for Improvement (32%)	Compliant, but with Findings and Recommendations (8%)	Partially Compliant (16%)	Not Compliant (28%)
✓ DOJ	✓ DOC	✓ GSA	✓ DOL	✓ USDA
✓ DOI**	✓ ED	✓ EPA	✓ VA	✓ DoD
✓ PBGC	✓ DOE		✓ SSA	✓ HHS
✓ NRC	✓ DHS		✓ OPM	✓ HUD
	✓ DOS			✓ Treasury
	✓ DOT			✓ CNCS
	✓ NASA			✓ SBA
	✓ USAID			

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## IPERA Audit Findings Trends - Distribution of Findings



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## Grant Thornton Observations of FY2013 Trends

- **Subjectivity remains across OIGs with regard to the “compliant versus noncompliant” audit results**
- Guidance does not account for the unique program and activity structures within the various agencies. - “One size does **not** fit all.”
- From FY 2012, improvement noted on how to identify, assess the risk of, and take a statistically valid sample of, agency programs and activities. In FY 2013: **The focus for areas of noncompliance were centered around meeting improper payment-reduction targets.**

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## Implement best practices on improper payments

### Best Practices

- Assess strengths and weaknesses of payment processes
- Develop business rules (i.e. predictive analytics) to identify payment anomalies
- Identify gaps and recommend corrective actions
- Educate stakeholders – both financial and program – regarding the risk assessment and estimation methodology
- Ensure efficient and thorough review of testing payments
- Analyze payment data at the lowest possible level to identify outliers, anomalies, etc.

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## OMB Circular A-123 Appendix C: Summary Methodology

- I. Review all programs and activities and identify those which are susceptible to significant erroneous payments**
  - Institute a systematic method of reviewing all programs.
  - Identify programs believed to be susceptible to significant erroneous payments.
  - Maintain documentation to support the review and results.
- II. Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities.**
  - Determine an annual estimated amount of improper payments.

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### Knowledge check 3

Which of the following is NOT a best practice of improper payments?

- A. Assessing strengths and weaknesses of payment processes
- B. Ensuring efficient and thorough review of testing payments
- C. Identifying gaps and recommending corrective actions
- D. Analyzing payment data at a high level

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### Knowledge check 3

Which of the following is NOT a best practice on improper payments?

- A. Assessing strengths and weaknesses of payment processes
- B. Ensuring efficient and thorough review of testing payments
- C. Identifying gaps and recommending corrective actions
- D. Analyzing payment data at a high level**

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## A few IPERA resources...

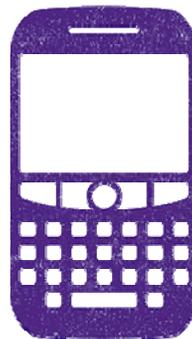
- OMB Memoranda
  - M-11-16 (Requirements for Effective Measurement and Remediation of Improper Payments)
  - M-11-04 (Requirements for Finding and Recapturing Improper Payments)
  - M-12-11 (Reducing Improper Payments through the "Do Not Pay List")
  - M-13-20 (Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative)
- IPERIA Legislation

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