Cross-Agency Priority Goal: Improper Payments
FY 2013 Q2 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

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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.

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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.
- January 10, 2013: The President signed into law the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), which will help improve the determination of improper payments by agencies, improve recovery of improper payments, and reinforce and accelerate the Administration's "Do Not Pay" efforts.

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.

Under this Administration, the Federal Government has focused on leveraging technology and sharing data to address improper payments. In April 2012, the Administration launched the government-wide Do Not Pay effort to help agencies avoid making payments to individuals or entities who should not receive Federal funds, such as debarred contractors receiving Federal awards, or retirement benefits going to dead Federal employees. By providing a single point of access to an array of databases and using data analytics, we are equipping Federal agencies with new tools to stop improper payments before they occur.

In January 2013, the President signed into law the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), which will enhance the Administration's efforts to combat improper payments. Consistent with existing protections for individual data privacy, the new law will help improve the determination of improper payments by agencies, improve recovery of improper payments, and reinforce and accelerate the Administration's "Do Not Pay" efforts.

As required under IPERIA, agencies will begin checking all payments, as appropriate, through Do Not Pay by June 1, 2013. Over the past few months, the Office of Management and Budget and Treasury have worked to develop and enhance an initial working system that will allow for central screening of payments against Do Not Pay using payment information agencies previously provided to Treasury in the ordinary course of business. The first phase of Do Not Pay implementation will focus on matching recipients with public data from the Death Master File (DMF) and the System for Award Management (SAM, which includes the former Excluded Parties List). Treasury will provide reports to agencies, which will adjudicate hits and adjust pre-award and pre-payment procedures to ensure these procedures factor in relevant information from Treasury on potential disqualification from eligibility. This is only a first step, however, as there is much more to be done to ensure that Do Not Pay is the robust, comprehensive solution for ensuring payment eligibility that Congress and the President have envisioned. Access to additional, appropriate databases will be expanded as, among other things, each agency involved completes necessary data-sharing agreements and satisfies database-specific legal restrictions (including privacy safeguards).

To help bolster Do Not Pay's value and address other key Administration goals, the President's FY 2014 Budget includes two proposals related to improving access to, and the completeness of, death data. If enacted, the proposal could result in approximately $1 billion in savings over 10 years.[1] The second proposal would gradually phase in full implementation of electronic death records in all states and other vital records jurisdictions over four years, which would result in timelier and more accurate data in the Death Master File. In total, the President's FY 2014 Budget includes a suite of program integrity proposals that, if enacted, would result in an estimated $98 billion in total savings over 11 years.

Indicators

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

[1] An overview of the Administration's proposal can be found in the "Budget Process" chapter of the Analytical Perspectives volume in the *Budget of the United States Government, Fiscal Year 2014*, p. 153 available at http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/concepts.pdf.

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.
Q2 – FY 2013	The President signed into law the Improper Payments Elimination and Recovery Improvement Act (IPERIA)	OMB is currently drafting implementing guidance.

Next Steps

- In order to achieve this Cross-Agency Priority goal, OMB will continue to work closely with agencies to ensure they are implementing appropriate and aggressive corrective actions to reduce their improper payments.

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 2013, November 2014, November 2015, and November 2016.
- Agencies will review, as appropriate, all awards and payments for all programs through the Do Not Pay working system by June 1, 2013.
- FY 2013: Issue implementing guidance to agencies on improving improper payment estimates, as required by IPERIA.

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/