OPTIMIZING PAYMENT INTEGRITY ACTIVITIES

A Guide for Identifying a Program's Tolerable Improper Payment Rate

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1   INTRODUCTION

The federal government spends trillions of dollars each year addressing urgent public needs, administering the spending directly and through partners at the federal, state, and local levels. To ensure programs are paying the proper amount to the correct recipient while following statutory requirements, agencies conduct Payment Integrity (PI) actions.[1] PI actions seek to cost-effectively reduce fraud, waste, abuse, and mismanagement without negatively affecting "program mission, agency efforts to advance equity, efficiency, customer experience, or the overall operations of the agency."[2] Federal agencies and Congress have a shared goal to reduce improper payments through these PI actions and implementation of the Payment Integrity Information Act of 2019 (PIIA).[3]

PI risks, including improper payment risks, are considered a part of an agencies' enterprise-wide risk portfolio.[4] These risks have cross-cutting implications – spanning strategic, operations, reporting and compliance objectives – and should be managed through agencies' Enterprise Risk Management (ERM) programs. Through an agency's ERM program, the program's leaders should identify their risk appetite[5] and risk tolerance[6] to inform the level of IP risk they are willing to accept, or the program's Tolerable IP Rate ("tolerable rate"). According to Appendix C of Circular A-123,[7] the Tolerable Rate is defined as:

> "the improper payment (IP) and unknown payment (UP) estimate achieved with a balance of payment integrity risk and processes to mitigate that risk. The tolerable IP and UP rate for a program is determined by agency senior management and often includes IPs which are unavoidable and beyond the agency's ability to reduce as well as IPs and UPs which are cost prohibitive or sometimes mission prohibitive for the agency to prevent."

Agency leadership should apply risk appetite and risk tolerance to balance the risk of improper payments across other portfolios of risk and in relation to program-specific mission. Federal agencies generally have low risk appetites for improper payments, with the U.S. Government emphasizing the importance of improper payment reduction in better protecting taxpayer dollars. From the perspective of annual financial audits and financial reporting, the financial management community continues to impress upon agencies the need to rigorously audit processes susceptible to improper payments and to

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[1] *E.g., Payment Integrity Information Act of 2019* (2019) § 3352(d), https://www.congress.gov/bill/116th-congress/senate-bill/375/text

[2] Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123 (2021),* https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

[3] *Payment Integrity Information Act of 2019* (2019), https://www.congress.gov/bill/116th-congress/senate-bill/375/text

[4] Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123 (2021),* page 29, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

[5] Risk appetite is defined as the broad-based amount of risk an organization is willing to accept in pursuit of its mission/vision. Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123 (2021),* page 72, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

[6] Risk tolerance is the acceptable level of variance in performance relative to the achievement of policy objectives and is aligned to risk appetite. Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123 (2021),* page 73, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

[7] Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123,* (2021), page 74, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

report improper payments. The financial management community is also committed to thoroughly implementing the requirements set out in PIIA. When improper payments occur, the government will continue to investigate their root causes and consider recovery or corrections. This guide does not alter those commitments.

In determining whether a component of an improper payment rate must or should be tolerated, this guide can help agencies on two levels: (1) to assess whether mitigation of specific improper payments is possible or desirable; and (2) to calibrate between policy and tolerable error rates in payment processes at an enterprise level. Any determination of whether rates *must* be tolerated or *should* be tolerated requires *proof*. As the federal government generally has a low risk appetite for improper payments, agencies carry the burden to *prove* some or all of their improper payments must or should be tolerated.

This guide provides agencies with the framework needed to analyze their payment processes consistent with principles adopted in PIIA and its implementing guidance in M-21-19, Appendix C to OMB Circular A-123. In PIIA, Congress acknowledged several determinants for risk of improper payments.[8] Several of these determinants implicitly acknowledge a risk of improper payments likely outside the agency's control, including: the "complexity of the program," "whether payments or payment eligibility decisions are made outside of the executive agency, such as by a State or local government," and "whether the program or activity lacks information on data systems to confirm eligibility or provide for other payment integrity needs." Throughout PIIA, Congress acknowledged that "additional funding,"[9] or "proposed statutory changes" may be "necessary,"[10] to reduce an agency's improper payment rate. In addition, PIIA acknowledges a "level below which further expenditures to reduce improper payments would cost more than the amount those expenditures would save in prevented or recovered improper payments,"[11] which highlights the fact that each individual program has a persistent level of improper payments that will be present in their financial operations.

From these statements, several categories of IPs can be inferred as potentially tolerable: (1) some improper payments are caused by factors outside the agency's control, including the statutory or regulatory design ("complexity," "lacks information" for "payment integrity needs," "proposed statutory changes"), lack of budget ("additional funding"), or the structure of the program ("eligibility decisions are made outside of the executive agency"); and (2) some improper payments are within the agency's control but mitigation efforts may "cost more than the amount those expenditures would save in prevented or recovered improper payments." The former category includes "unavoidable" improper payments, which are improper payments that result from legal requirements that agencies cannot alter. These categories are components that constitute an agency's tolerable rate.

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[8] *Payment Integrity Information Act of 2019* (2019) § 3352(3)(B), https://www.congress.gov/bill/116th-congress/senate-bill/375/text
[9] *Payment Integrity Information Act of 2019* (2019), § 3353(b)(2)(B)(ii)(II) and § 3352(d)(3), https://www.congress.gov/bill/116th-congress/senate-bill/375/text
[10] *Payment Integrity Information Act of 2019* (2019), § 3353(b)(3)(A)(ii), https://www.congress.gov/bill/116th-congress/senate-bill/375/text
[11] *Payment Integrity Information Act of 2019* (2019), § 3352(3)(B), https://www.congress.gov/bill/116th-congress/senate-bill/375/text

In order to determine if a program has reached a tolerable rate, this guide defines how each of these categories of IPs identified above could be justified as tolerable, through evidence-based decision-making.[12] Those root causes outside of an agency's direct control, such as statutory, regulatory, budgetary, and structural, are explored in Section 3. Additionally, those root causes within an agency's control, but which are impractical or undesirable to mitigate, are explored in Section 4, with modifications presented in Section 5 to address underpayments, unknown payments, technically IPs, and programs which may not meet the criteria set for a more robust analysis in Section 4.

This guide presents additional direction for the user in Section 6, which is the tradeoff between balancing proposed or existing corrective actions with equity. Some PI actions may impose inequitable and unreasonable burden on the beneficiary, accordingly, Section 6 proposes methods to balance this tradeoff, in alignment with the direction given in the *Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*.[13]

It is important to note that this guide is optional for agencies to follow and does not supersede any existing guidance in OMB Circular A-123, Appendix C, or A-123. Determining a tolerable rate also does not alter statutory obligations to report improper payments under PIIA.

2   SCOPE

This guide defines the components of a program's IP rate which may be considered tolerable due to factors outside of an agency's control, or due to the factors being impractical or undesirable to address due to its cost or impediment to program mission. While all categories of IPs are discussed, the focus within this guide is on monetary loss IPs.[14]

This guide helps programs analyze their payment processes after at least one round of improper payment reporting, such as an estimate from Phase 2 or comparable estimates.[15] Generally, this guide is most helpful if the program has historical data from at least three prior years in order to eliminate the

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[12] "Evidence is broadly defined and includes foundational fact finding, performance measurement, policy analysis, and program evaluation." OMB, M-19-23.   "Federal agencies often lack the data and evidence necessary to make critical decisions about program operations, policy, and regulations, and to gain visibility into the impact of resource allocation on achieving program objectives. Investing in and focusing on the management and use of data and evidence across the Federal Government will enable agencies to shift away from low-value activities toward actions that will support decision makers: linking spending to program outputs, delivering on mission, better managing enterprise risks, and promoting civic engagement and transparency." Id.

[13] White House, *Executive Order On Advancing Racial Equity and Support for Underserved Communities Through the Federal Government,* (January 2021), §5(A), https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/20/executive-order-advancing-racial-equity-and-support-for-underserved-communities-through-the-federal-government/

[14] Monetary loss type improper payment is defined as an amount that should not have been paid and in theory should/could be recovered. A monetary loss type IP is an overpayment. Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123 (2021)*, page 67, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

[15] Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123 (2021)*, page 68, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf, at 17.

possibility of an outlier year.[16] To report in Phase 2, a program will conduct an analysis of the root causes for their improper payments, including their unknown payments. This guide uses that root cause analysis to establish whether mitigation strategies can or should be applied to those improper payments or whether those payments should or must be tolerated. Even after establishing a "tolerable rate," agencies should continue to monitor their improper payments and explore new ways to mitigate improper payments in a cost-effective way.

For those programs which are new, or have not established a baseline, in section 5.1, this guide also provides a framework through which the program could identify similar programs from which to identify a likely baseline to be used in the assessment of proposed Corrective Action Plans[17].

In addition to the need for some measurement of a baseline rate of improper payments, the methodologies presented in this paper, particularly the cost-benefit analysis (CBA) presented in Section 4, rely on the assumption that efficacy rates of proposed corrective action plans are constant over a given time horizon for assessment.

This guide provides several benefits to financial managers:

1. Relying on estimated improper payments, historical performance, and identification of root causes, this guide will help these managers evaluate the enterprise's payment processes and set future goals for payment processes as part of the agency's overall performance and budgetary objectives. This guide aids the financial managers or policymakers who evaluate payment processes at an enterprise level in an effort to improve the entire enterprise's performance going forward.

2. Performance goals – including goals for payment processes – must rely on "rigorous evidence of effectiveness, where feasible and appropriate"[18] at the enterprise level. This guide offers the evidence-based framework for prospective assessment of the enterprise's payment processes, ensuring those payment processes fit within the enterprise's overall goals and risk appetite, including acceptable or "tolerable" performance measures, such as the level of improper payments.

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[16] *Payment Integrity Information Act of 2019* (2019), § 3353(b)(3), https://www.congress.gov/bill/116th-congress/senate-bill/375/text: Congress gave agencies three years of noncompliance with the statutory thresholds of improper payments before it authorized agencies to submit "reauthorization proposals" and "proposed statutory changes" to Congress. This guide uses the three years as a similar proxy for a sufficient history of improper payments before agencies may determine the payments should be included in their tolerable rates (for example, improper payments resulting from statutory limits or structure).

[17] Strategy put in place by a program to prevent and reduce the IP and UP amount. It is responsive to the root causes of the IPs and UPs and proportional to the severity of the associated amount and rate of the root cause. It typically contains multiple mitigation strategies and corrective actions. Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123 (2021),* page 61, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

[18] OMB Circular A-11, Preparation, Submission, and Execution of the Budget, Section 200.5 (2020), https://www.whitehouse.gov/wp-content/uploads/2018/06/a11.pdf.

3. The guide also presents a framework through which programs can evaluate the impact of their PI actions on equity and suggests potential options for eliminating or modifying unreasonable burden to improve equity among beneficiaries.

This guide, however, does not address the assessment of actions to address improper payments after they occur, such as recovery actions.

3   THOSE ROOT CAUSES OUTSIDE THE AGENCY'S CONTROL

The following sub-sections provide guidance for how an agency could identify root causes outside of the agencies' control and justify that corrective actions will not sufficiently mitigate the risk of IPs. This section covers IPs caused by legal restrictions, statutory design, regulation or guidance, budget limitations, and structural design. Each sub-section provides the questions an agency should ask to identify if their ability to mitigate the root cause is outside their control, evidence required to substantiate the claim, potential actions to request outside assistance in remedying the root cause, and then example use cases.

3.1   LEGAL RESTRICTIONS

In many circumstances, agencies may identify a root cause, such as an inability to verify or authenticate eligibility, but a deeper reason for the root cause lies in the statutory structure or regulatory design. In other words, the root causes of the improper payments are inherent to the statutory or regulatory design. While similar, a statutory basis is distinct from a regulatory basis, so they will be treated differently.

3.1.1   Statutory Design

3.1.1.1   *Questions to Ask*
1. Does statute or case-law interpreting the statute dictate eligibility criteria for benefits, contract, or other forms of payment?
2. Does the statute or case-law require payment from the program at a certain point in time?
3. Can the agency verify or ascertain each statutorily required criteria for the applicant's eligibility at the time of required payment? This question focuses only on whether the agency *legally* can delay payment until all statutory requirements are verified or ascertained.
   a. If the answer is "**no**," then proceed to gather the evidence in Section 3.1.1.2.
   b. If the answer is "**yes**," then proceed to question 4.
4. Does any statute, for example, the Privacy Act, bar the agency from adding internal controls for the root cause of improper payments?
   a. If the answer is "**no,**" then statutory design is not a basis for tolerable improper payments.
   b. If the answer is **"yes**," then proceed to gather the evidence in Section 3.1.1.2.

3.1.1.2   *What is the Evidence?*
1. The first step is to confirm the program's interpretation of the statute. Consult the agency's general counsel to provide a legal opinion on either (1) the agency must pay before it can

verify or ascertain statutory requirements, or (2) the agency is barred by statute from adding internal controls for the root cause of improper payments. If other agencies are responsible for the relevant statute, please ask the agency's general counsel's office to reach out to the other agency to provide a legal opinion.

2. For either situation, the agency will need to provide evidence connecting the estimated level of improper payments to the statutory design:
    a. Connecting the level of improper payments to the program's inability to verify or ascertain eligibility before payment is required.
    b. Connecting the level of improper payments to the program's inability to verify eligibility information because of a statutory restriction or limitation.

3. For the situation where statutes limit the agencies' ability to add internal controls (if the agency answers "yes" to question 4b in 3.1.1.1), the agency should explain with evidence why the inability to add a particular control is tied to the improper payments and the agency made efforts to verify criteria though other less accurate means.

3.1.1.3   *Potential Actions*

1. If the answer to the question 3 in 3.1.1.1. is "no," then for situations where the statute requires payment *before* eligibility can be verified or ascertained, consider framing the improper payments caused by the statutory design as "unavoidable" improper payments or improper payments outside the agency's control, see Case #1 Social Security payments and OMB guidance below.

2. Work with the agency's policy office, legislative affairs office, and OMB to consider and propose legislative amendments to the relevant statutes.[19]

3. If the program is out of compliance under PIIA, utilize the reporting provisions in PIIA to identify legislative amendments in reports to Congress. For example, after three years of noncompliance, PIIA states that the agency shall submit to Congress "proposed statutory changes necessary to bring the program or activity into compliance."[20]

3.1.1.4   *Use Cases*

Social Security payments and OMB guidance

The Social Security Administration (SSA), OMB, and the Government Accountability Office (GAO) all agree that certain improper Social Security payments are unavoidable or should not count as "improper payments." "For example, the Social Security Act allows individuals, in prescribed circumstances, to request a continuation of their benefits while they appeal an adverse action. If the appeal is not decided in their favor, the resulting overpayment is not considered an improper payment because it was statutorily required at the point it was made."[21] Here, the law requires payment before the verification of eligibility through a statutorily-required due process.

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[19] https://www.govinfo.gov/content/pkg/BUDGET-2021-PER/pdf/BUDGET-2021-PER-3-2.pdf (describing the lead up to the FUTURE Act, which excepted Education from pre-existing restrictions).

[20] *Payment Integrity Information Act of 2019* (2019), § 3353(b)(3), https://www.congress.gov/bill/116th-congress/senate-bill/375/text

[21] Social Security Administration, *Reducing Improper Payments*, (n.d.), https://www.ssa.gov/improperpayments/

SSA's Office of the Inspector General (OIG) listed several improper payments considered "unavoidable."[22] The OIG provided an example: "when the law requires that SSI payments be made on the first of the month based on projected income for that particular month. Changes in the recipient's status can occur during the month, which causes the recipient's eligibility to change. Because SSA cannot prevent the overpayment, this situation should not be reflected in the Agency's erroneous payment rate."[23] This example presents a situation when improper payments occur because law requires payment before the eligibility is fully ascertainable.[24]

Income and Means-Testing

For the Department of Education's education programs, loan and grant amounts for their Direct Loans and Pell Grants turn on an "expected family contribution," which "is calculated according to a formula established by law[:] Your family's taxed and untaxed income, assets, and benefits (such as unemployment or Social Security) all could be considered in the formula."[25] The formula depends significantly on income reported on tax returns.[26] Colleges use targeted verification to verify data elements submitted, including the expected family contribution.[27] As part of this targeted verification, colleges may request targeted applicants to submit tax information for verification. Over the years, the Department of Education has requested access to an applicant's tax information in order to verify income data more systematically beyond targeted verification; the IRC, 26 U.S.C. 6103, however, limits agency access to tax information.[28] Prior to 2019, the Department of Education had no statutory ability to verify tax information systematically, so the limits set by 26 U.S.C. 6103 prevented the Department of Education or colleges to mitigate errors in tax and income information, and, therefore calculations of the "expected family contribution." Errors created by erroneous tax data had to be tolerated absent legislative amendment. In 2019, Congress amended the statute, 26 U.S.C. 6103(I)(13), to permit data sharing of tax information, permitting mitigation of those improper payments. The Department of Education is now implementing new mitigation strategies in light of this legislative change. This use case provides an example of how legislative change provided the primary avenue for further mitigation of otherwise "tolerated" improper payments.

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[22] Office of the Inspector General, Social Security Administration, *The Social Security Administration's Plan to Reduce Improper Payments Under Executive Order 13520, as Reported in March 2013*, (September 30, 2013), https://oig.ssa.gov/sites/default/files/audit/full/pdf/A-15-13-13105.pdf.

[23] Id.

[24] GAO also concludes in these situations that: "a payment that was made following a legal requirement to make the payment subject to subsequent judicial or administrative determinations that the payment is not due should not be included in an agency's estimate of its improper payments. We agree with OMB's conclusion not because it is an 'unavoidable' payment but rather because it does not meet the definition of an improper." Government Accountability Office, *Post-Hearing Questions Related to Agency Implementation of the Improper Payments Information Act*, https://www.gao.gov/assets/a93594.html.

[25] Federal Student Aid, *Wondering how the amount of your federal student aid is determined?,* (Department of Education, n.d.), https://studentaid.gov/complete-aid-process/how-calculated

[26] Federal Student Aid, *The EFC Formula 2021–2022*, (Department of Education, August 2020), https://fsapartners.ed.gov/sites/default/files/attachments/2020-08/2122EFCFormulaGuide.pdf.

[27] *Verification,* (finaid.org, n.d.), https://finaid.org/fafsa/verification/.

[28] https://www.govinfo.gov/content/pkg/BUDGET-2021-PER/pdf/BUDGET-2021-PER-3-2.pdf (describing the lead up to the FUTURE Act, which excepted Education from pre-existing restrictions).

3.1.2 Program Design in Regulation or Sub-regulatory Guidance

3.1.2.1 *Questions to Ask*

1. Does regulation or sub-regulatory guidance implementing statutes or regulations dictate eligibility criteria for benefits, contract, or other forms of payment?
2. Does the regulation or guidance require payment from the program at a certain point in time?
3. Can the agency verify or ascertain each eligibility criteria for the applicant's eligibility at the time of required payment? This question focuses only on whether the agency can delay payment consistent with regulations or agency guidance until all statutory requirements are verified or ascertained.
   a. If the answer is "**no**," then proceed to gather the evidence in Section 3.1.2.2.
   b. If the answer is "**yes**," then proceed to question 4.
4. If the answer to question 3 in 3.1.2.1 is **yes**, does any regulation or guidance bar the agency from adding internal controls to verify all eligibility criteria at the time of payment?
   a. If the answer is "**no**," then regulatory design or guidance is not a basis for tolerable improper payments.
   b. If the answer is **"yes**," then proceed to gather the evidence in Section 3.1.2.2.
5. Confirm with policy holders that guidance or regulation is still in force and the Department is not considering modification of the guidance or regulation. The Department should consider whether the agency is willing to modify guidance without modifying the regulation.

3.1.2.2 *What is the Evidence?*

1. The first step is to confirm the program's interpretation of the regulation or guidance. Please consult the general counsel's office to provide a legal opinion on either (1) the agency must pay before it can verify or ascertain eligibility requirements based on regulation or sub-regulatory guidance, or (2) the agency is barred by regulation or guidance from adding internal controls for the root cause of improper payments. If other agencies are responsible for the relevant regulation or guidance, please ask the general counsel's office to reach out to the other agency to provide a legal opinion.
2. For either situation, the agency will need to provide evidence connecting the estimated level of improper payments to the regulatory design or guidance:
   a. Connecting the level of improper payments to the program's inability to verify or ascertain eligibility before payment is required.
   b. Connecting the level of improper payments to the program's inability to verify eligibility information because of a regulatory or sub-regulatory restriction or limitation imposed.
3. If the answer to question 4 in 3.1.2.1 is "yes," then for the situation where regulation or guidance limits the agencies' ability to add internal controls, the agency should explain with evidence why the inability to add a particular control is tied to the improper payments and the agency made efforts to verify criteria though other less accurate means.
4. Confirmation from policy makers that the regulation or sub-regulatory guidance is still in force and not under consideration for modifications.

3.1.2.3 *Potential Actions*

1. For situations where the regulation or guidance requires payment *before* eligibility can be verified or ascertained (if the answer to question 3 in 3.1.2.1 is "no"), consider framing the improper payments caused by the regulatory or sub-regulatory design as "unavoidable" improper payments or payments out of the agency's control.

2. Work with the policy office in the agency to determine if guidance or regulation should be altered. If the policy office determines the agency will modify guidance or regulation in light of the improper payments, then the policy office should weigh the cost and benefit analysis underpinning the guidance or regulation in light of a possible reduction in improper payments. The cost and benefit model in Section 4 may assist in that calculation.

3. Given the greater agency discretion with sub-regulatory and regulatory guidance, financial managers should work with the policy office to determine if more effective design of the guidance that simplifies compliance or minimizes ambiguities may lead to improved input from beneficiaries.[29] For example, behavioral insights may assist with simplifying or modifying communications and forms that increase compliance and reduce errors.[30]

3.1.2.4 *Use Cases*

Contracts and the Federal Acquisition Regulation

Civilian agencies, such as the Department of Veterans Affairs (VA), utilize the Federal Acquisition Regulation (FAR) when contracting with vendors who provide services under their programs. In VA's community care program, VA purchases care in communities across the country; however, there are multiple instances where the providers did not or would not agree to enter into FAR-compliant agreements even though the rate paid is legislatively mandated at the Department of Health and Human Services (HHS) CMS rate. Given the program's mission and mandate to provide services, VA purchased services despite non-compliance with the FAR and, thus, payments under those contracts are considered "improper." Essentially, VA's mission required these out-of-compliance contracts. VA had "tolerated" the improper payments resulting from inability to conform to regulatory requirements. VA also sought legislative change and the MISSION Act altered the regulatory scheme, permitting VA to implement contracts outside of FAR and reduce errors that occurred outside of compliant contracts.

Death Data and Verification

Sub-regulatory guidance also sets the payment cycles in compliance with regulatory or statutory requirements. However, under any payment cycle created by the sub-regulatory guidance, payment to deceased beneficiaries or retirees is unavoidable due to those payment cycle dates and the fact that notifying payroll about a death is not likely to be the first action for next-of-kin at the time of a retiree's passing.[31] Dollars released after death (either electronically or in the form of a paper check) that are

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[29] Some examples include creating FAQs, modifying instructions for forms, or improving customer service. Unlike statutory requirements, agencies retain greater discretion in interpreting their own regulations or guidance through these informal means.

[30] Programs can continue to clarify guidance regarding eligibility and program selection when adjudicating claims. Many agencies may focus on clarification and simplification after exhausting other methods.

[31] *E.g.,* Department of Defense, FY 2020 Annual Financial Report, at 271; Department of Defense, Military Retirement Fund Audited Financial Report FY 2017, at 24.

reclaimed by the Department of the Treasury or returned unendorsed should not be reflected in the Agency's erroneous payment rate. Payments made after death that are improperly cashed or withdrawn are improper payments.[32] Under both situations, setting these payment cycles necessarily creates errors resulting from a lag between payments and notice of a death. While automation may minimize the lag, no change in payment cycles will absolutely eliminate such lags. The improper payments caused by such lags must be "tolerated" after exhausting attempts to receive death in a timely manner.

3.2   LIMITATIONS OF APPROPRIATIONS

3.2.1   Questions to Ask

1. Do increased mitigation efforts require additional staff and/or a budgetary increase?
   a. If YES, then proceed to question 2.
   b. If NO, then proceed to question 3.
2. If the answer to question 1 in 3.2.1 is yes, do appropriations laws and Departmental policies permit reallocating funds or staff to potential mitigation strategies?
   a. If YES, then proceed to question 3.
   b. If NO, then proceed to question 4.
3. If the answer to question 1 is no or the answer to question 2 in 3.2.1 is yes, has the program examined and already applied efforts to improve mitigation without a budgetary increase and within existing resources; if so, has the program identified any additional mitigation strategies, other than improved training?
   a. If YES to both questions, then use the CBA in Section 4 to determine if shifting resources to these mitigation strategies is economically beneficial, effective, and consistent with policy objectives.
   b. If NO to either question, then use the behavioral sciences playbook,[33] and other best practice materials to examine whether mitigation strategies can apply without a budgetary increase and with existing staff levels. Also consider whether process can improve through lean process improvements (see Section 6.3.1) or business process reengineering (BPR).[34]
4. If the answer to question 2 in 3.2.1 is no, does the CFO and/or Department officials in charge of budgetary requests concur in the request to Congress to ask for or reallocate funds or staff for potential mitigation strategies?
   a. The CFO and/or Department officials may consult the CBA in Section 4 to determine the cost effectiveness and policy implications for new strategies. In some situations, the CFO and/or Department officials may rank the low number of improper payments from a particular program as less problematic than other agency priorities. In these situations, without applying a CBA, the CFO and/or Department officials may decide not

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[32] Government Accountability Office, GAO-15-87R, "Improper Payments: Inspector General Reporting of Agency Compliance under the Improper Payments Elimination and Recovery Act" (2014).
[33] Internal Revenue Service, *Behavioral Insights Toolkit*, (n.d.) https://www.irs.gov/pub/irs-soi/17rpirsbehavioralinsights.pdf.
[34] Government Accountability Office, *Business Process Reengineering Assessment Guide*, (May 1997), https://www.gao.gov/assets/aimd-10.1.15.pdf.

to support further funding for additional payment integrity efforts.   The CFO and/or Department officials may use the numerical thresholds in PIIA (a 10% improper payment rate) or internal rankings of agency priorities in its performance plans to reach this determination without a CBA.

b. If <u>YES</u>, then include the request as part of the regular budgetary process and report these requests in agency financial reports or descriptions of mitigation strategies for paymentaccuracy.gov. If the program does not comply under PIIA, then include these requests in reports required by PIIA. Before a budgetary increase is approved by Congress, the improper payments can be included in a tolerable rate.

c. If <u>NO</u>, then the improper payments can be included into a tolerable rate.

3.2.2   What is the Evidence?

1. Confirm with OMB and the CFO about the program's budgetary limits and ability to re-allocate funding or staff.
2. Document the answers and analysis to the questions above.
3. Document the connection between the improper payments and the need for additional resources. For example, a discussion of how administrated errors are caused by a lack of automation, and the resources needed to automate the system, including upgrades of the computer systems.[35]

3.2.3   Potential Actions

1. Periodically review this analysis and continue to survey the market to identify less costly solutions or new federal government resources, such as private or federal data that may become available or less expensive to use in checking payments.
2. Ensure these requests for additional resources are submitted to OMB and Congress as required.
3. Continue to examine how to maximize existing resources or how to leverage existing resources across the federal government to address the root cause for the improper payments.

3.2.4   Use Cases

Federal Employees' Compensation Act (FECA)

"The FECA program provides workers compensation coverage (i.e., wage-loss compensation and payment for medical treatment) to federal and postal workers for employment-related injuries and occupational diseases."[36] In FY 2019, the FECA program had outlays of $3 billion dollars and estimated improper payments of $73.6 million.[37] This resulted in an improper payment rate of 2.4%.[38] The agency

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[35] See, for example, improper payment rates tied to the inability to upgrade IT systems due to budget limits in USDA programs. https://www.cfo.gov/wp-content-2/Supplemental-data-call-2021/USDA.pdf.

[36] Office of the Inspector General Department of Labor, *Reporting Over the U.S. Department of Labor's FY 2019 Compliance with the Improper Payments Elimination and Recovery Act*, (May 15, 2020), https://www.oversight.gov/sites/default/files/oig-reports/Reporting%20Over%20the%20US%20Department%20of%20Labors%20FY%202019%20Compliance%20with%20the%20Improper%20Payments%20Elimination%20and%20Recovery%20Act.pdf

[37] <u>Id.</u> at 8.

[38] <u>Id.</u> Depending on the time horizon for these budgetary decisions, policymakers may use the 10-year estimate of $736 million to justify investments in further mitigation. Agencies will have to decide whether the amount of improper payments annually or over a different time horizon would justify budgetary requests or investments.

that manages FECA, the Department of Labor's Office of Workers' Compensation Programs (OWCP) highlighted the program's historic low rates for improper payments, its systemic controls, its extensive training materials, and internal auditing.[39] "Given past performance, improved tools and increased self-scrutiny, OWCP does not believe [at the time] that limited resources should be expended to achieve marginal improvements in payments accuracy at the expense of other mission critical needs."[40] OWCP concluded that costly overhauls of its systems were not justified based on the program's low rates of improper payments and how it has rigorously maximized its resources to maintain and improve existing mitigation efforts. Given these characteristics and without needing a specific CBA, the organization determined that the improper payments constituted a tolerable rate as agency leadership did not concur in authorizing resources to address the improper payments in light of its low priority to the mission.

3.3   RESTRICTIONS BASED ON THE PROGRAM'S STRUCTURE

3.3.1   Questions to Ask

1. Does the statute create a program structure whereby program funds pass through an intermediary non-federal entity (e.g., a state, Tribe, grant-making organization) before reaching the ultimate beneficiary?
2. Are the improper payments tied to the payments from the non-federal entity to the ultimate beneficiary?
3. Does the statute provide the federal government any authority to require the third-party to impose certain internal controls or mitigation strategies to prevent improper payments? In other words, are the improper payments within the scope of the government's authority to impose requirements or internal controls? For financial assistance programs and activities, the federal government has authority under 2 C.F.R. part 200, including a single audit requirement.
    a. If YES, can the agency impose any further guidance, regulation, or other preventive mechanism on the third parties responsible for the improper payments? See question 4.
    b. If NO, then the improper payments from the non-federal entities to beneficiaries can be included within the tolerable rate as long as the federal entity continues to ensure funds pass to the intermediary non-federal entity within tolerable rates of improper payments and as long as the statute does not change. The federal agency can analyze its direct control over the delivery of funds to the intermediate non-federal entity separately under the other parts of this guide. The agency should consider appropriate non-mandatory actions to encourage the non-federal entity's payment integrity for payments to beneficiaries as resources permit, including training, issuing guidance, providing general assistance, or leading legislative initiatives, such as the UI Integrity Center.

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[39] Office of the Inspector General Department of Labor, *OWCP's Efforts to Detect and Prevent FECA Improper Payments Have Not Addressed Known Weaknesses*, (February 15, 2012), page 31, https://www.oversight.gov/sites/default/files/oig-reports/DOL/03-12-001-04-431FECA-Improper-Payments02152012.pdf.
[40] Id. at 31.

4. If the federal government can still impose preventive measures, are there any preventive measures under consideration? The agency should consider a cost benefit analysis for any preventive measures as described in Section 4. The structure would affect the agency's costs and efficacy rates for preventive measures. Structure could also affect the opportunity costs and indirect costs on the non-federal entities. For example, imposition of requirements on non-federal entities may reduce the amount of funds that ultimately reach the beneficiaries.[41] If the agency determines it has issued sufficient regulations or guidance to the non-federal entity to impose an adequate level of internal controls and cannot exert any further control over the non-federal entity, then the improper payment rates caused by those non-federal entities may be included within the tolerable rate.

3.3.2   What is the Evidence?

1. From the general counsel's office, obtain a memo describing the program's statutory structure and the scope of the agency's legal authority to require the non-federal entities adopt internal controls for preventing improper payments. For financial assistance programs, agencies should discuss its program's compliance with 2 CFR part 200.
2. The agency should document any ongoing efforts to require internal controls pursuant to the legal authority, including regulations, guidance, or non-mandatory training and initiatives.
3. The CFO and program heads should assess whether additional regulations or guidance requiring internal controls are feasible, weighing the policy objectives, the relationship with the non-federal entities, and cost/benefit analysis described in Section 4. Document the decision and its rationale.
4. If the agency determines it cannot impose any more mandatory internal controls on the non-federal entities, whether outside its legal authority or infeasible (if the answer to question 3 in 3.3.1 is "no" or the agency decided no more controls can be imposed pursuant to question 4), any improper payments tied to the non-federal entities' errors can be included within the tolerable rate. Tolerating such errors does not mean the agency will not urge or require the entities to recover the improper payments and correct or mitigate the cause for the error once discovered. The agency's efforts post-payment does not affect the agency's toleration of improper payments risks resulting from the program's structure.

3.3.3   Potential Actions

1. Continue to maintain oversight over non-federal entities and provide assistance to the extent provided in the statute, guidance, or policies.[42]

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[41] Agencies should assess possible requirements that may be imposed on non-federal entities before payment. Agencies' post-payment efforts to audit or review non-federal entities' activities are not relevant to this analysis.
[42] For example, while HHS cannot mandate practices or IT systems, HHS's Office of Child Care's National Center on Subsidy Innovation and Accountability provides technical assistance to states and territories on program integrity and accountability, including targeting technical assistance to states to support reauthorization requirements. HHS also delivers technical assistance to states regarding updating or developing IT systems that will improve practices and reduce errors.   Department of Health and Human Services, Agency Financial Report (AFR) FY 2020, at 248.

2. Continue to evaluate states' performance on payment integrity issues within resource and legal constraints and recommend strategies to improve performance.[43]
3. Continue to examine payment processes and evaluate the non-federal entities' performance.
4. If the statute charges agencies to oversee the non-federal entities, the agencies must continue that mission to oversee the non-federal entities' payment integrity efforts. The improper payment rate serves as an imperfect proxy for assessing the agencies' oversight functions. Agencies should avoid using improper payment rates as the focus for evaluating the agencies' performance of their oversight functions. For example, non-federal entities could refuse to adopt the agencies' initiatives, so agencies should not measure performance in this oversight function with the improper payment rate.[44]

3.3.4 Use Cases

Childcare Program

HHS's Office of Child Care (OCC) supports low-income working families by improving access to affordable, high-quality early care and afterschool programs. OCC administers the Child Care and Development Fund (CCDF), which is a block grant to state, territory, and tribal governments that provides support for children and their families with paying for child care.[45] "Each state has a lead agency that is responsible for the funding provided and administering the program in the state. Public agencies and private entities (including center-based and relative providers) can receive grant funding from the lead agency to provide child-care services to eligible children and families."[46] "OCC and state lead agencies share responsibility for overseeing and protecting the financial integrity of the CCDF program. To receive CCDF grant funds, OCC requires state lead agencies to submit a Child Care and Development Fund Plan (State Plan) for approval. The approved State Plans are effective during a 3-year program period, which currently runs from fiscal years 2019 to 2021."[47] These Plans "include a section for ensuring grantee program integrity and accountability, which encompass both fraud and improper-payment risks. In addition, OCC oversees regular reviews of the state lead agencies' improper payments . . . When a lead agency reports an improper payment rate at or above 10 percent, it is required to submit a comprehensive corrective action plan (CAP). . . [B]eginning in fiscal year 2019, OCC launched its Monitoring System, which is focused on monitoring states' CCDF programs in several topic areas including program integrity and accountability."[48][49] Despite these efforts, the program has limited ability to impose controls or improved payment integrity practices on states. Accordingly, training has

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[43] For example, the DOL, through its BAM (Benefits Accuracy Measurement) reports, and the UI Integrity Center, leads efforts to improve accountability at the state level for payment integrity issues.

[44] *E.g.*, https://www.oig.dol.gov/public/reports/oa/2015/18-15-003-03-315.pdf (recommendation to help states only by "work[ing] with and encourag[ing]" the state).

[45] https://www.acf.hhs.gov/occ/about/what-we-do.

[46] https://www.gao.gov/assets/710/707007.pdf.

[47] Id. at 1.

[48] HHS "now instructs states to consider if making additional inquiries might mitigate potential improper payments that are due to missing or insufficient documentation. Additional . . . revisions such as clarifying language and requirements to provide more information about error causes and action steps are aimed at increasing accuracy and streamlining data collection" HHS, FY 2020, AFR, at 244.

[49] https://www.gao.gov/assets/710/707007.pdf.

been the main strategy for mitigating payment integrity risks.[50] "HHS has limited authority to require specific actions of state grantees given that states determine the specifics of their CCDF programs."[51] HHS has rigorously exercised this authority to maintain oversight over states. Despite HHS's rigorous efforts, to the extent the program's improper payments continue to result from the states' improper payments to beneficiaries, these improper payments can be included within the tolerable rate.

Unemployment Insurance

"Unemployment Insurance is a joint state-federal program that provides cash benefits to eligible workers. Each state administers a separate UI program, but all states follow the same guidelines established by federal law."[52] "States operate and administer the UI program in accordance with state laws and policies, and are the entities that directly control UI integrity and can reduce improper payments."[53] Administrative errors at the state-level due to the lack of adequate UI program integrity controls are under the purview of state work force agencies.[54] As long as Department of Labor continues to exert its full legal authority to develop and recommend initiatives and oversee state efforts, improper payments resulting from the states' administrative errors can be included within the tolerable rate.

4   THOSE ROOT CAUSES WITHIN THE AGENCY'S CONTROL

While some root causes of overpayments are outside of agency control and therefore must be tolerated, a crucial element of managing payment integrity risk is determining when overpayment rates would be impractical or undesirable to further reduce[55] and therefore when those rates should be tolerated. The Payment Integrity Information Act of 2019 (PIIA)[56] establishes statutory thresholds for all categories of IP rates, including overpayment rates. When IP rates exceed these statutory thresholds, agencies develop Corrective Action Plans to reduce those rates, which per OMB guidance[57] should be cost-effective and not impede program mission. This section provides a framework for agencies to determine whether IP rates are impractical and undesirable to reduce based on whether potential Corrective Action Plans:

- Are cost-effective.

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[50] https://www.cfo.gov/wp-content/uploads/2021/03/Child%20Care%20Payments%20Integrity%20Scorecard%20FY%202021%20Q1.pdf. Paymentaccuracy.gov Scorecard. HHS, FY 2020, AFR, at 247.

[51] HHS, FY 2020, AFR, at 247-48.

[52] https://oui.doleta.gov/unemploy/docs/factsheet/UI_Program_FactSheet.pdf.

[53] https://oui.doleta.gov/unemploy/pdf/ui_prog_integrity.pdf.

[54] https://www.cfo.gov/wp-content-2/uploads/2019/12/Unemployment-Insurance-Getting-Payments-right-Scorecard-FY-2019-Q4.pdf.

[55] A payment that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.

[56] *Payment Integrity Information Act of 2019* (2019) § 3352(3)(A)(i), https://www.congress.gov/bill/116th-congress/senate-bill/375/text

[57] Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123 (2021),* page 29, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

- Negatively affect the program mission, agency efforts to advance equity, efficiency, user experience, or the overall operations of the agency.

The four-step process depicted in Figure 1 and presented in this guide will help agencies make these determinations and manage IP risk by deciding whether a Corrective Action Plan should be implemented. Consistent with best practices established in Circular A-4,[58] this approach includes steps to separately evaluate the quantifiable and non-quantifiable costs and benefits.

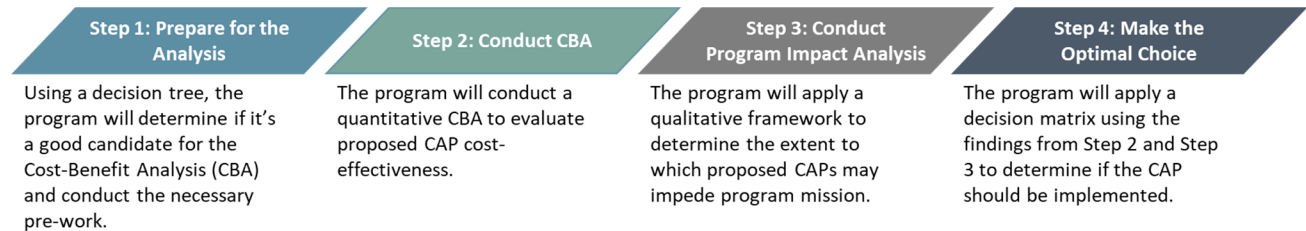| Step 1: Prepare for the Analysis	Step 2: Conduct CBA	Step 3: Conduct Program Impact Analysis	Step 4: Make the Optimal Choice
Using a decision tree, the program will determine if it's a good candidate for the Cost-Benefit Analysis (CBA) and conduct the necessary pre-work.	The program will conduct a quantitative CBA to evaluate proposed CAP cost-effectiveness.	The program will apply a qualitative framework to determine the extent to which proposed CAPs may impede program mission.	The program will apply a decision matrix using the findings from Step 2 and Step 3 to determine if the CAP should be implemented.

Figure 1 - Framework Overview

The decision to implement the Corrective Action Plan will be informed by the results of *Step 2: Conduct CBA* and *Step 3: Conduct Program Impact Analysis*. If the Corrective Action Plan is cost-effective and it does not impede upon the program's mission, it should be implemented. If one of those conditions – cost-effectiveness and negligible program mission impact – is not met, it should not be implemented.

Ultimately, the purpose of the proposed methodology is to identify a tolerable rate of overpayments; a rate beyond which further reduction is not cost-effective or excessively impedes upon the program's mission and is therefore impractical and undesirable. Once all cost-effective and mission-friendly Corrective Action Plans have been implemented, then any remaining overpayments are to be tolerated, as any further reduction would cost the agency more money than it saves, impede on mission, or both.

4.1 POLICY JUSTIFICATION

OMB Circular A-123 requires agencies to integrate risk management and internal control activities,[59] including controls related to Payment Integrity. To balance risk and control, federal risk managers may document their risk appetite in risk appetite statements, which articulate the broad amount of risk an organization is willing to accept in pursuit of strategic objectives. "Although a formally documented risk appetite statement is not required, agencies should have a solid understanding of their risk appetite and tolerance levels in order to create a comprehensive enterprise-level risk profile."[60] Once risk appetite statements have been developed, the program manager should then establish risk tolerance levels, or the acceptable level of variance in performance relative to the achievement of objectives, to monitor and measure the balance of risk and control.

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[58] Office of Management and Budget, *OMB Circular A-4*, Regulatory Analysis, page 10, https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A4/a-4.pdf.
[59] Office of Management and Budget, *M-16-17 OMB Circular A-123,* (July 15, 2016), page 1, https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2016/m-16-17.pdf
[60] Office of Management and Budget, *M-16-17 OMB Circular A-123,* (July 15, 2016), page 13, https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2016/m-16-17.pdf

The definition of tolerable rate from Appendix C encapsulates the concept of risk appetite and tolerance, stating "All programs should be mindful of the extent to which applying further payment controls would undercut the program's mission or resource management." [61]

PIIA, which reorganizes and revises several existing PI statutes requiring federal agencies to reduce IPs, states that programs may need to report on how Corrective Action Plans will "reduce improper payments to a level below which further expenditures to reduce improper payments would cost more than the amount those expenditures would save in prevented or recovered improper payments."[62] That is, agencies should implement all controls in which benefits outweigh the costs. Once an agency implements all such controls, the improper payment rate is the tolerable rate.

PIIA then tasks OMB with providing guidance regarding "strategies for addressing risks and establishing appropriate prepayment and post payment internal controls."[63] OMB characterizes "appropriate prepayment and post payment internal controls" in the following statement from the introductory memo of Appendix C: "requirements for payment integrity should not negatively affect program mission, agency efforts to advance equity, efficiency, customer experience, or the overall operations of the agency."[64]

PIIA further states that the agency should establish control activities to help reduce IPs by "performing cost benefit analyses of potential control activities before implementation to help ensure that the cost of those activities to the organization is not greater than the potential benefit of the control."[65]

Taken together, PIIA and Appendix C establish that PI actions should be cost-effective and not excessively impede upon program mission.

4.2   SCOPE

This methodology only evaluates overpayments as they pose a direct, discernable monetary loss to the government, thereby focusing the analysis on the most serious concern to the government[66] and simplifying the CBA process. Assessing other improper payment categories require departures from the CBA model and will be examined in the "alternatives" section.

This framework and methodology evaluate the cost-effectiveness and practicality of potential Corrective Action Plans for existing programs that have not significantly changed in the last three years. For example, many programs either created or funded through COVID-19 pandemic relief will not meet

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[61] Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123* (2021) page 7, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

[62] *Payment Integrity Information Act of 2019* (2019) § 3352(d)(2), https://www.congress.gov/bill/116th-congress/senate-bill/375/text

[63] *Payment Integrity Information Act of 2019* (2019) § 3352(g)(2)(b), https://www.congress.gov/bill/116th-congress/senate-bill/375/text

[64] Office of Management and Budget, *M-16-17 OMB Circular A-123,* (July 15, 2016), page 1, https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/memoranda/2016/m-16-17.pdf

[65] Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123 (2021),* page 61, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

[66] Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123* (2021), page 9, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

these criteria. This assumption is informed by the CFOC COVID-19 PI Risk Survey[67] conducted in July of 2020. The survey required that all programs responding reported, at minimum, an increase in funding, because the programs surveyed were recipients of supplemental funding from the CARES Act. The breakdown of the number of programs that reported experiencing each risk is provided in Table 1. As all programs are impacted by at least one risk factor, it is unlikely they can reliably meet the criteria set out in section 4.3. – *Prepare for the Analysis*.

Risk Factor	Number of Programs which Reported Experiencing the Risk Factor (out of 152)
Increase in Funding	152
New Program	14
New Legal Provisions	21
Change in program eligibility rules	19
Executing Payment Process Differently	1
Increase in Volume of Applications	22
Decrease in Program Personnel	1
Less than 12 months to spend funding	5
Other	27

Table 1 - CFOC COVID-19 PI Risk Survey Results

4.3   STEP 1 – PREPARE FOR THE ANALYSIS

Some programs, due to insufficient data or distinct program characteristics (e.g. being newly established, having yet to exhaust all practical mitigations, etc.), may not benefit from conducting a CBA on a potential Corrective Action Plan. Agencies through the CFO office should work on obtaining and producing this data collaboratively across program and subagency lines. The first few nodes of the decision tree in **Error! Reference source not found.** help programs determine their suitability as candidates to conduct the CBA, as well as to prepare for the analysis. Each subsection will explain a node in the Decision Tree shown in **Error! Reference source not found.** and how programs should answer the questions and identify a proper course of action.

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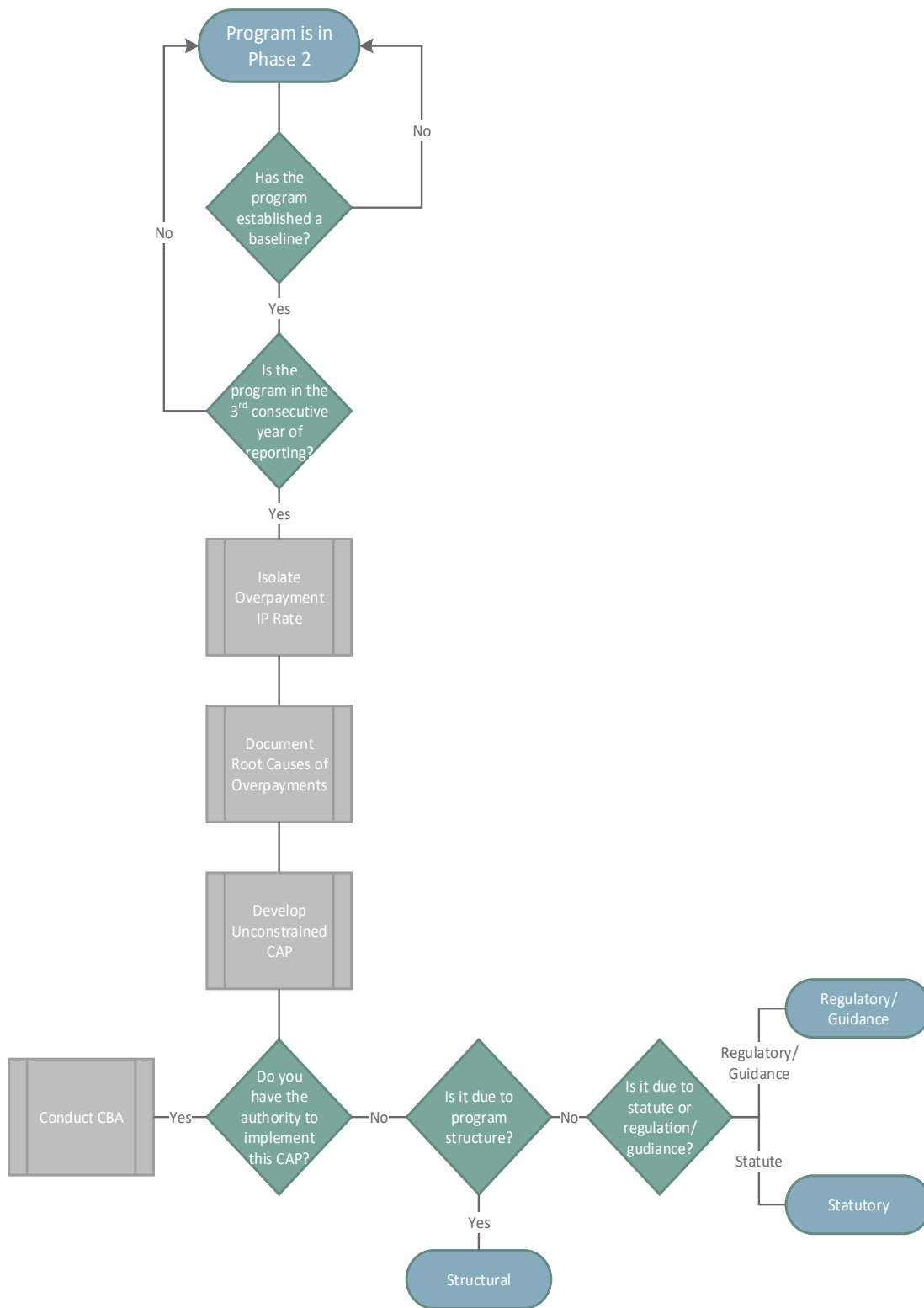[67] Office of Management and Budget, *CFOC COVID-19 PI Risk Survey* (July 2020)

Figure 2 - Prepare for the Analysis Decision Tree

Establishing a Baseline of a Historically Stable IP Rate

Programs should establish a baseline of their historically stable IP rate to compare against the benefits and costs of a Corrective Action Plan. A program that has sufficiently established a baseline will:

- Be within Phase 2 of Assessment;
- Have established and maintained a baseline;
- Be in the 3rd consecutive year of reporting;
- Report a relatively stable IP Estimate; and
- Have exhausted all practical mitigations.

Programs in the 3rd consecutive year of Phase 2 that have not experienced significant changes[68] are good candidates to conduct a CBA because they will have likely established a baseline[69] and should have enough data to conduct the analysis. Whether a program has established a baseline for purposes of using this guide to determine the tolerable rate can be determined by answering the following questions:

- Has the IP rate remained "relatively constant" for the past three years?
- Has the program's exposure to IP risk changed, as it relates to the risk factors identified in PIIA?
- Has the program exhausted all reasonable mitigation strategies?

Defining a "relatively constant" IP estimate is up to each agency. However, an IP rate that has IP estimates from the previous three years less than one standard deviation from the average is a good benchmark.

PIIA provides risk factors that can be used to determine if a program is at significant risk of IPs.[70] These should be used as a starting point, and programs should determine whether any unique risk factors exist for their program. If these factors indicate a program may now be susceptible to a higher IP rate compared to the last three years, they have not maintained a baseline.

To validate a program has exhausted all practical mitigations, they should:

- Document the corrective actions implemented and their inability to further reduce the IP rate through IP rate data;
- Justify why any unutilized corrective actions do not adequately address the root cause; or
- Conduct this analysis to provide evidence of the cost-effectiveness and program mission impact of corrective actions.

The 3rd consecutive year of reporting is an opportune time to conduct a CBA because a noncompliant program is required to submit a report to Congress, OMB, and the Comptroller General of the United

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[68] Significant changes are changes that materially alter the program's risk profile for improper payments, exemplified by some of the factors described in PIIA that "likely to contribute to a susceptibility to significant improper payments," *Payment Integrity Information Act of 2019,* (2019), §§ 3552(a)(3)(B)(i)-(vi).

[69] Baseline is defined as a starting point or the benchmark against which future progress can be assessed or comparisons made. If a program had a 24-month reporting cycle where no significant changes occur in the Sampling & Estimation Methodology Plan, the program will most likely be considered to have established a baseline.

[70] *Payment Integrity Information Act of 2019,* (2019), § 3352(A)(1), https://www.congress.gov/bill/116th-congress/senate-bill/375/text

States that includes reauthorization proposals and statutory changes, if applicable, or a description of what the program is doing to become compliant, including a timeline. The findings of the CBA should inform the report and illustrate why reducing the IP rate within the statutory threshold is not practical.

Isolate Overpayment Rate

Programs in Phase 2 that have established a baseline – as defined by this methodology – should isolate their overpayment rate from underpayments, technically IPs, and unknown Payments. Programs should have already done this to comply with Appendix C, but it is reiterated due to the importance of this step to the overall methodology. Isolating the overpayment rate is necessary to identify distinct root causes and effective corrective actions. As each IP type requires a unique method of analysis, this section focuses only on the analysis of overpayments.

Document Root Causes of Overpayments

The next step in this process is for programs to identify and document the root causes of their overpayments. Following Appendix C to A-123, programs should first identify which of the 5 generic cause categories[71] apply to their overpayment rate. However, to identify and implement effective mitigations, the program-specific root cause – or the core issue that sets in motion the entire cause-and-effect reaction – must be identified. The proposed methodology recommends the program apply the "5 whys" – an iterative interrogative technique used to explore the cause-and-effect relationships underlying a particular problem – or other analytical techniques to go beyond the cause categories and understand specific causal factors of the overpayment rate.

These root causes inform the best course of action to take in mitigating the overpayment. For example, if a significant portion of overpayments are identified as having a root cause outside of the agency's control, such as statutory requirements to make a payment, then traditional mitigation strategies are unlikely to be effective in addressing the overpayment rate. This guide expands upon how programs could provide evidence their IP rate is tolerable due to statutory requirements in Section 3.1.1. During this step, a program should identify all the root causes of overpayments and segment the overpayments into these subcategories based on root causes.

Develop an Unconstrained Corrective Action Plan

Once the root causes of the overpayments have been identified, programs should then develop an unconstrained Corrective Action Plan to address each of these root causes. A program should consider, in an unconstrained scenario where statute, budget, and all other restricting factors are not in play, how would the root causes of the overpayments be effectively addressed. The sole focus should be on the effectiveness of the corrective action; an assessment of the feasibility and efficiency will come later.

It is important to develop an unconstrained Corrective Action Plan because the corrective actions should be selected for effectiveness in terms of reducing the frequency of identified root causes before their cost is evaluated. If a program were to constrain the Corrective Action Plan, it may be implementing ineffective corrective actions that are too narrow as a result of the constraints and not recognizing the need for additional budget, statutory, or regulatory changes. This framework will ultimately help programs determine if additional budget, statutory, or regulatory changes are required to implement an

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[71] Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123 (2021),* page 23, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

effective Corrective Action Plan, which would result in a budget request or legislative request submitted following Appendix C to Circular A-123.

Evaluate Authority to Implement Corrective Action Plan

Once the unconstrained Corrective Action Plan has been developed, the program should then evaluate whether they can practically implement the Corrective Action Plan. A program should ask a series of questions, shown in Figure 3 and taken from the decision tree (**Error! Reference source not found.**) to understand the Corrective Action Plan's practicality.
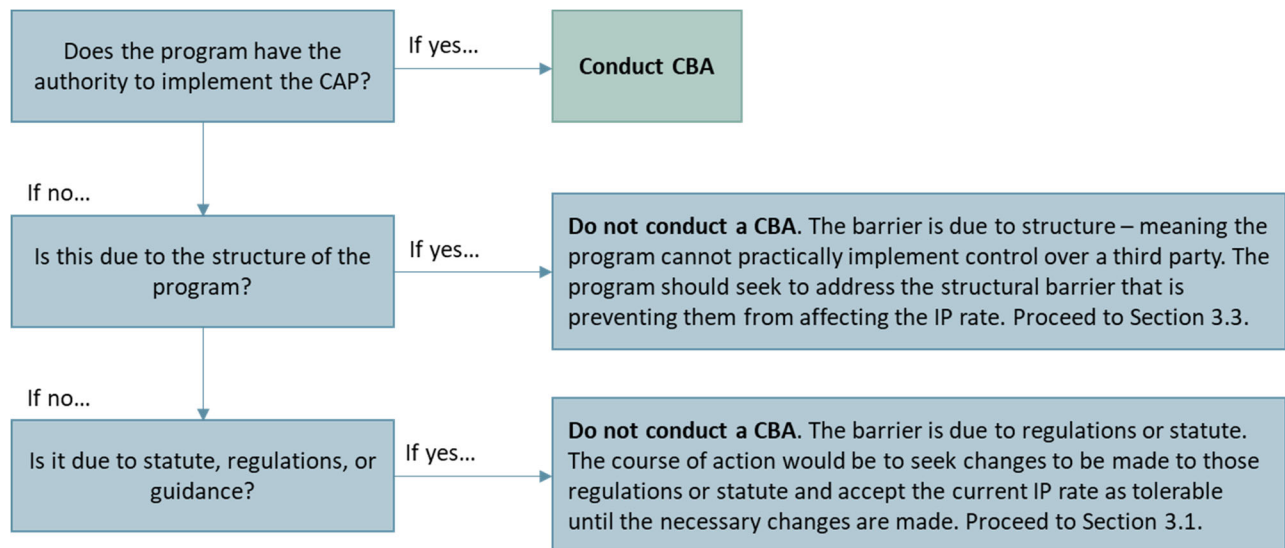

Figure 3 - Determining Authority to Implement a Corrective Action Plan

Programs with the authority to implement the Corrective Action Plan may move on to the next step of evaluating the Corrective Action Plan: the CBA.

4.4   STEP 2 – CONDUCT CBA

The CBA Framework helps a program determine whether a proposed Corrective Action Plan is cost-effective. To measure cost-effectiveness, the methodology calculates the net present value (NPV) of the Corrective Action Plan, or the difference between Corrective Action Plan benefits and costs over a specified time horizon and discount rate. A Corrective Action Plan found by a CBA to have a negative NPV – that is, to cost more in implementation than its value in overpayments reduction – is considered not cost-effective. A Corrective Action Plan found to have a positive NPV – that is, to reduce overpayments in an amount greater than it costs to implement – is considered cost-effective.

Note that the same CBA framework discussed in this guide can be applied to a variety of program types seeking to reduce overpayments. The CBA framework can also use historical data to analyze whether a CBA is effective. Direct payment, loan, contract, grant, and other programs can evaluate the cost efficacy of Corrective Action Plans by much the same process, identifying and weighing costs against the projected benefits yielded by the program in terms of overpayment reduction.

The proposed methodology requires three categories of parameters to conduct the CBA:

1. **Baseline parameters**. A baseline overpayment rate and overpayments value provide context to gauge costs and benefits of a proposed Corrective Action Plan.
   a. The baseline overpayment rate in the CBA framework is calculated by averaging the overpayment rates from the previous three years.
   b. The baseline overpayment value is calculated by applying the baseline overpayment rate to the average value of outlays from each of the previous three years.
2. **Benefit parameters.** Benefits are equal to the monetized value of overpayments reduced by the Corrective Action Plan. The greater the dollar value of the overpayment reduction, the greater the dollar value of Corrective Action Plan benefits.
   a. Because Corrective Action Plans within and across agencies are likely to have varying levels of efficacy, the CBA does not assume or assign one. Rather, the CBA framework provides twenty scenarios of benefit, ranging from 5% to 100% Corrective Action Plan efficacy, which agencies can align with their estimates. If, for example, an agency expects a Corrective Action Plan to reduce overpayments by between 20 and 30 percent, that agency may choose to examine benefit levels corresponding to 20%, 25%, and 30% efficacy rates in their CBA
3. **Cost parameters.** Various costs are added together to be weighed against benefits. Parameters used to calculate those costs include:
   a. The fixed and variable costs of the Corrective Action Plan.
   b. The administrative costs as a result of the Corrective Action Plan.
   c. The monetized burden the Corrective Action Plan may impose on the recipient.
   d. The opportunity cost of other uses of the budget.

Once all parameters are input, the CBA framework will calculate the NPV of the Corrective Action Plan in each year over the time horizon of interest. For purposes of this methodology, this time horizon is estimated at three to five years, operating under the assumption that an agency will approximately need three to five years for Corrective Action Plans to yield a positive NPV. For each year and at each value of efficacy, a new overpayment rate is forecasted. If the NPV is negative, indicating the Corrective Action Plan is not cost-effective, the framework will return the baseline overpayment rate. If the NPV is positive, indicating the Corrective Action Plan is cost-effective, the framework will forecast a reduced overpayment rate. This new rate is calculated by: (1) subtracting <u>the value of the Corrective Action Plan benefits for that year at the efficacy rate</u> from <u>the baseline value of overpayments</u> and then (2) dividing that difference by the average value of outlays over the most recent three years.

Establishing a Baseline
A baseline level of overpayments must be established to calculate the dollar value of any reduction in overpayments. To establish this baseline, the average outlay dollar amount and overpayment rate are taken from the years 2018-2020. The average overpayment rate is applied to the average overpayment amount to produce the average value of overpayments.

Table 2 and Table 3 show these calculations using an anonymized program as an example. Data for the years 2019 and 2020 are obtained from OMB's Payment Accuracy resources, while 2018 data is taken from the program's 2018 PI report.

Year	Outlays
2018	$56,495,450,000
2019[72]	$56,976,300,000
2020[73]	$56,544,830,000
Average Outlay Value	$56,672,193,333

Table 2 - Program Outlays by Year

Year	Overpayment Rate
2018	8.23%
2019[74]	8.23%
2020[75]	8.13%
Average Overpayment Rate	8.20%

Table 3 - Program Overpayment Rates by Year

The average overpayment rate of 8.20% is applied to the average outlay value of $56,672,193,333. This produces a baseline overpayment value of **$4,645,230,780**.

Benefits and costs of the Corrective Action Plan are measured against this baseline. In the provided program example, the baseline overpayment rate is 8.20%.[76] If the Corrective Action Plan in question has a negative net-present value – that is, it produces less money than it spends over the time horizon of interest – then the Corrective Action Plan is not cost-effective, and the existing overpayment rate is likely tolerable. In other words, even if this Corrective Action Plan would produce a lower overpayment rate, it would do so in a cost-inefficient manner and should not be implemented. If the Corrective Action Plan being evaluated has a positive NPV – that is, it produces more money than it loses over the time horizon of interest – then it is cost-effective and the reduced rate from the Corrective Action Plan may constitute a new tolerable rate (if the Corrective Action Plan doesn't impede upon program mission).

Calculating Corrective Action Plan Benefits

Because the objective of the Corrective Action Plan is to reduce overpayments, Corrective Action Plan benefits are measured in terms of overpayments reduced. One limitation of the model, as will be discussed in further depth in a later section, is that agencies are unlikely to know precisely how effective Corrective Action Plan under considerations will be. As such, the CBA framework does not assume an efficacy rate, rather providing twenty different scenarios of benefits for agencies to align with their own efficacy estimates. These scenarios range from a low of a 5% reduction in the baseline value of overpayments to a high of 100% reduction in the baseline value of overpayments. Suppose that the agency in charge of the example program estimated that its Corrective Action Plan would reduce

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[72] Office of Management and Budget, *Payment Accuracy 2019 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/

[73] Office of Management and Budget, *Payment Accuracy 2020 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/

[74] Office of Management and Budget, *Payment Accuracy 2019 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/

[75] Office of Management and Budget, *Payment Accuracy 2020 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/

[76] This example provides a "relatively constant" IP estimate with an IP rate that has IP estimates from the previous three years less than one standard deviation from the average.

overpayments by between 10% and 20%. The framework holds that, in that case, benefits would fall somewhere between 10% of the baseline overpayment value and 20% of the baseline overpayment value. Given an overpayment baseline value of $4,645,230,780:

1. A Corrective Action Plan with a 10% efficacy rate would have benefits equaling 10% of $4,645,230,780, or **$464,523,078.**
2. Corrective Action Plan with a 20% efficacy rate would have benefits equaling 20% of $4,645,230,780, or **$929,046,156.**

An agency estimating its Corrective Action Plan efficacy rate at between 10% and 20% would then be able to estimate the value of Corrective Action Plan benefits as falling someplace between $464,523,078 and $929,046,156. So long as agencies can create broad, reasonable estimates of efficacy, they will be able to estimate a likely range of Corrective Action Plan benefit. Appendix C to OMB Circular A-123 provides some guidelines, stating that "effective mitigation strategies will have some nexus to the root cause"[77]. Agencies might, then, estimate plan efficacy based on:

- Specific past Corrective Action Plans that addressed similar root causes. If, for instance, an agency administers a program particularly susceptible to fraud and seeks to implement a Corrective Action Plan, it might examine past Corrective Action Plans used by other programs/agencies intended to combat fraud. If a Corrective Action Plan directed towards fraud reduced another program's overpayment rate by about 20%, then a similar Corrective Action Plan focused on fraud for the program of interest might be estimated to reduce overpayments by about 20% as well.
- Patterns among past Corrective Action Plans and those of similar programs. Agencies might see if patterns exist among Corrective Action Plans for programs whose improper payments tend to stem from similar root causes. That is, whether improper payment rates of certain root causes tend to decrease by similar amounts when provided with a Corrective Action Plans.

These guidelines may provide some assistance to agencies in estimating the efficacy of their Corrective Action Plans. The guidelines are to be used alongside agencies' own means and methods for doing so. Ultimately, agencies may be able to produce rough estimates of their projected Corrective Action Plans efficacy rates and align those estimates with the scenarios in the CBA framework.

Each benefit scenario is weighed against the annual cost of a Corrective Action Plan, with Corrective Action Plans assumed to be roughly equally effective in each year of implementation. More effective Corrective Action Plans will yield higher levels of benefit, and thus be more likely to have a positive NPV by the end of the time horizon of interest. Efficacy directly impacts the forecasted overpayment rate; the higher the Corrective Action Plan efficacy, the more overpayments can be reduced. The more overpayments can be reduced, the lower the rate of overpayments that should be tolerated.

There is an additional, optional benefit input for programs which believe that the implementation of a Corrective Action Plan will actually cause burden reduction, or improvements to program efficiency. If the program believes there will be tangible cost reductions, they should input additional information pertaining to these benefits. For burden reduction, the program should input the value of a recipient's

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[77] Office of Management and Budget, *M-21-19 Appendix C to O]MB Circular A-123 (2021)* page 30, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

hour, the burden minutes reduced, and the number of beneficiaries impacted to assess the benefits of the reduced burden. For improvements in program efficiency, the program should estimate the expected dollar value of cost savings they anticipate as a result of the Corrective Action Plan.

If a program considers the benefits of improved efficiency as a quantitative input as a part of the CBA, they should not consider it again as a qualitative input, such as Benefit Timeliness, to the Program Impact Analysis in Step 3, as this would be double counting the benefit.

Calculating Corrective Action Plan Costs

Corrective Action Plan benefits should be weighed against Corrective Action Plan costs to effectively gauge its cost-effectiveness. The framework examines two types of costs: direct and indirect. Direct costs are those costs incurred to the agency as a direct result of the Corrective Action Plan's implementation. The fixed and variable costs of the Corrective Action Plan, for instance, are direct costs to the agency. Indirect costs result from the Corrective Action Plan's implementation but do not directly cost the agency money. For instance, paperwork burdens a Corrective Action Plan imposes on recipients do not directly cost the agency money but are nonetheless costs of the program. Different programs implementing Corrective Action Plans may have different direct and indirect costs. The CBA methodology identifies four costs relating to the example program:

1. **Fixed & Variable Costs**. These are the direct fixed and variable costs of implementing the Corrective Action Plan. They may include:
   - Some amount of upfront investment in year zero
   - Costs of trainings for staff who will implement the Corrective Action Plan
   - Software and other technology costs associated with the Corrective Action Plan
2. **Administrative Cost.** This direct cost of administering the Corrective Action Plan (i.e. overhead costs such as contracting and procurement).
3. **Public Burden Cost.** This indirect cost is the monetary value of the extra burden placed on program beneficiaries by the Corrective Action Plan, for example, burdens measured by the Paperwork Reduction Act.[78]
4. **Opportunity Cost.** This indirect cost accounts for the money likely to be gained if the money spent on the Corrective Action Plan was allocated for another purpose. For example, programs could consider whether the money would be better spent on recovery rather than prevention.

Each corrective action within a Corrective Action Plan will require some level of fixed and variable costs for implementation and maintenance, with exact numbers varying by agency and aggressiveness of the Corrective Action Plan. These numbers are to be estimated by the user. Administrative costs are the costs of administering the Corrective Action Plan. For purposes of this framework, administration costs are estimated by multiplying the percentage of the annual budget going to administration costs by the fixed and variable costs of maintaining the Corrective Action Plan. If these costs total $20,000,000 in one year, for instance, then a 7% administration cost rate would correspond to administrative costs of $1,400,000. Note that the method of calculating administration costs may be best left to the discretion of the agency; using overall program administration cost ratios and the costs of program

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[78] Agencies may decide to weigh indirect public burdens less or more than federal outlays depending on policy preferences. The description of the model here equates those costs.

implementation and maintenance is simply one means of estimation. Most important for the CBA framework is that administration costs are accounted for.

Public burden is the first indirect cost accounted for in this framework. The Paperwork Reduction Act of 1995[79] requires agencies considering new regulations to estimate the burden-hours on those affected or involved in compliance. Hours are to be calculated based on the amount of time the typical program recipient is estimated to perform activities such as[80]:

1. Reviewing instructions;
2. Collecting information; and
3. Compiling and sending information.

Agencies regularly conduct such assessments and issue Public Burden Statements estimating the number of hours a task is likely to require. The CBA framework has agencies input the number of additional burden-hours each Corrective Action Plan element is likely to entail. Different agencies take different approaches to monetize burden-hours; some do not monetize burden-hours at all.

One option for agencies seeking to monetize burden-hours is to examine whether burden-hours are monetized by agencies administering similar programs. For instance, The Department of Agriculture uses the Federal minimum wage of $7.25/hour in valuing burden-hours related to compliance with the Women, Infants, Children and Supplemental Nutrition Assistance programs[81], as its recipients of those are low-income and likely to earn at or near the Federal minimum-wage. An anti-poverty program administered by another agency, then, presumably targets similar populations as WIC and SNAP. Applied to the example program, the CBA framework therefore uses the Federal minimum wage of $7.25/hour to estimate the monetary cost of public burden. Table 4 shows an example of how this cost calculation works, evaluating an additional five minutes of burden added on each recipient by a Corrective Action Plan:

Number of Additional Burden Minutes	Federal Minimum Hourly Wage	Approximate Number of Recipients	Total Burden
5	$7.25	8,000,000	$4,833,333

Table 4 - Burden Estimation

The 5 minutes of additional burden is multiplied by the hourly wage rate of $7.25 and the number of recipients, approximately 8,000,000. Because the burden-hours for the example program Corrective Action Plan are measured in minutes rather than hours, the number is divided by sixty. Ultimately, the 5 minutes of extra burden translates to over $4,800,000 in indirect costs of the Corrective Action Plan. The framework evaluates the user-input number of minutes or hours of burden, the value of a burden-hour, and the number of recipients to calculate the annual public burden cost of the Corrective Action Plan.

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[79] Office of Information and Regulatory Affairs, *Estimating Burden | A Guide to the Paperwork Reduction Act*, (n.d.), pra.digital.gov/burden/
[80] Office of Information and Regulatory Affairs, *Estimating Burden | A Guide to the Paperwork Reduction Act*, (n.d.), pra.digital.gov/burden/
[81] Adam Samaha, *Death and Paperwork Reduction*, (Duke University School of Law, 2015), page 26, https://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=3821&context=dlj

Opportunity costs are forgone benefits that would have come from the best alternative to the Corrective Action Plan. Including opportunity costs in the CBA provides a more comprehensive view of the relative benefits of Corrective Action Plans for decision making. If opportunity costs are significant, causing costs to outweigh benefits, then other courses of action should be considered. Programs should evaluate opportunity costs that are feasible alternatives according to federal appropriations law. If the money could not be feasibly used for that forgone benefit, it should not be included as an opportunity cost.

In one feasible instance of opportunity cost, the Social Security Supplemental Security Income program uses Continuing Disability Reviews and other redeterminations of benefits to identify whether those who have received SSI payments in the recent past remain eligible to do so in the future[82]. In the 2021 Fiscal Year, redeterminations were expected to triple all money invested over ten years[83], translating to an annual rate of return of approximately 12%. The CBA framework applied to SSI, then, would use a 12% return on fixed costs-money that would otherwise be spent on redeterminations-to value opportunity costs.

For purposes of the example program, the CBA framework presumes the example program would otherwise invest its fixed costs money into a payment integrity program with a 10% rate of return.

Results & Application

The ultimate purpose of the CBA framework is to gauge whether a Corrective Action Plan under consideration is cost-effectiveness. The CBA determines the potential Corrective Action Plan's cost-effectiveness by calculating its NPV over a given time horizon. Agencies can apply the appropriate time horizon for these calculations. Table 5 shows an example set of NPVs for three different efficacy rates

Efficacy Rate	Year 0 NPV	Year 1 NPV	Year 2 NPV	Year 3 NPV	Year 4 NPV	Year 5 NPV
15%	-$611	-$17	$538	$1,064	$1,558	$2,021
25%	-$147	$881	$1,842	$2,748	$3,596	$4,390
35%	$317	$1,780	$3,147	$4,432	$5,634	$6,759

Table 5 - NPVs by Efficacy Rate (Millions of Dollars)

For two of the three efficacy rates, the Corrective Action Plan at year 0 has a negative NPV. With benefits equal to 25% or 35% of the baseline overpayments, the Corrective Action Plan's NPV turns positive in year 1. A Corrective Action Plan with a 15% efficacy remains at a negative net present value until year 2. In other words, a 25% or 35% efficacy rate means that the Corrective Action Plan will become cost effective in year 1 of implementation, while a 15% efficacy rate means the Corrective Action Plan only becomes cost-effective in year 2. Whether a Corrective Action Plan is cost-effective, then, depends on how much it reduces overpayments and its time horizon.

The CBA framework further forecasts reduced overpayment rates based on whether a Corrective Action Plan's NPV is positive. Table 6 shows the new overpayment rate calculated for each year and examined efficacy scenario. Where NPV is negative, the forecasted overpayment rate remains the baseline

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[82] Social Security Administration, *FY 2021 Congressional Justification*, (2020), page 55, https://www.ssa.gov/budget/FY21Files/2021SSI.pdf
[83] Social Security Administration, *FY 2021 Congressional Justification,* (2020), page 18, https://www.ssa.gov/budget/FY21Files/2021SSI.pdf

overpayments rate of 8.20%, as further reduction would not be cost-effective, and therefore would be impractical and undesirable. Where NPV is positive, the benefits of the Corrective Action Plan are translated into a rate reduction, yielding a new, lower overpayment rate of 6.97%, 6.15% or 5.33%, depending on whether the Corrective Action Plan 15%, 25%, or 35% effective, respectively. These are the new respective tolerable rates for each level of Corrective Action Plan efficacy, beyond which further reduction would be impractical and undesirable.

Corrective Action Plan Efficacy Rate	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
15%	8.20%	8.20%	6.97%	6.97%	6.97%	6.97%
25%	8.20%	6.15%	6.15%	6.15%	6.15%	6.15%
35%	5.33%	5.33%	5.33%	5.33%	5.33%	5.33%

Table 6 - Overpayment Rates by Corrective Action Plan Efficacy Rate

Determination of cost-effectiveness is a crucial step under the proposed methodology in deciding whether to implement a Corrective Action Plan:

	Cost-Effective Corrective Action Plan	Not a Cost-Effective Corrective Action Plan
Impedes Program Mission	Do not Implement Corrective Action Plan	Do not Implement Corrective Action Plan
Does Not Impede Program Mission	Implement Corrective Action Plan	Sometimes Implement Corrective Action Plan Because of Statutory imperatives[84]

Table 7 - Corrective Action Plan Decision Matrix

After a Corrective Action Plan's NPV is determined to be positive, the agency can begin evaluating whether, if implemented, the Corrective Action Plan would impede the program mission. The following section details how agencies may undertake this largely qualitative process, establishing a set of criteria for the agency to evaluate the impact of the proposed Corrective Action Plan on their program's mission.

4.5   STEP 3 – CONDUCT PROGRAM IMPACT ANALYSIS

The quantitative CBA may not fully capture the impact of a Corrective Action Plan on a program's mission. This step presents one option for a qualitative approach that employs a decision matrix to evaluate intangible factors. There are other ways to account for intangible factors and it is ultimately the agency's responsibility to determine the best method to be used for their analysis. The qualitative analysis complements, but does not supersede or incorporate, the qualitative CBA.

Define Factors

First, program administrators should define the non-quantifiable factors to evaluate. These factors should serve as proxies for a program's mission and may include reputation and equity. To the extent recovery activities are considered in the CAP decision, these non-quantifiable factors also apply to a

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[84] In some cases, the appropriations must be allocated and executed for payment integrity purposes even if the spending isn't cost-effective.

CAP's recovery component and its overall impact analysis. Table 8 presents a few factors, as examples, to be considered.

Factor	Example
Reputation (Positive or Negative)	For instances where programs expect public scrutiny beyond what is typical for Federal programs, reputation should be considered as a factor in the analysis. Fraud is oftentimes a significant driver of reputational impact, though not the only factor. An example of where fraud could drive reputational impact could be a situation in which the public may perceive that the agency is not doing enough to combat fraud, which results in a series of high-profile reports. The negative public sentiment could lead to public distrust and lower enrollments as well as increased oversight and scrutiny from Congress. However, there could also be positive reputational impact if the public believes the agency is taking appropriate steps to address fraud and strengthening their controls.[85]
Benefit Access	A Corrective Action Plan may introduce a new informational requirement in the application such as address verification for identity verification. Some would-be recipients without permanent addresses might be deterred from enrolling in benefits. If the purpose of the program is to assist the lowest-income individuals, then a control potentially deterring those likely to be among the lowest-income is antithetical to the program's mission. Non-quantifiable burden on beneficiaries can factor both as an impact on access or equity.
Benefit Equity	A Corrective Action Plan may implement especially complex eligibility rules. Those with access to lawyers, accountants, or other specialists will experience much less burden to comply than would those without such access, creating an inequity. Or the Action may impinge on important beneficiary interests, such as the privacy or due process of individuals. Assessments should consider the impact caused by any post-payment processes, such as recertification. See also Section 6 for a fuller discussion of equity considerations.
Benefit Timeliness	In disaster situations, funds may need to be disbursed rapidly to be effective in their application to relief efforts, but Corrective Action Plans may slow this payment process beyond the intent of the relief.

Table 8 - Qualitative Mission Impediment Risks

Establish Assessment Criteria

Second, the program should develop assessment criteria to score each factor in scenarios where the Corrective Action Plan is and is not implemented. For example, if a reputational factor is identified, how would the program evaluate whether the Corrective Action Plan has a positive or negative impact on reputation?

A program may choose to use the assessment criteria and matrix (Table 9) upon which to score and record each scenario.

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[85] GAO, A Framework for Managing Fraud Risks in Federal Programs, https://www.gao.gov/assets/gao-15-593sp.pdf, at 13-14.

Assessment Criteria:

    -3 *Significant negative impact*

    -2 *Moderate negative impact*

    -1 *Some negative impact.*

    0 *No impact*

    1 *Some positive impact*

    2 *Moderate positive impact*

    3 *Significant positive impact*

	Scenario 1 – Implement Corrective Action Plan	**Scenario 2 – Do Not Implement Corrective Action Plan**
Factor 1		
Factor 2		
Factor 3		

Table 9 - Sample Assessment Matrix

The assessment criteria and matrix should be tailored to each program (so programs can use more or less factors), based on achievable levels of specificity and program characteristics. This simply serves baseline example.

Weight the Factors

Third, programs should apply weights to each factor based upon their relative importance to the program mission. Reputation impacts may not be weighed as heavily as, for example, the risk that the Corrective Action Plan would eliminate benefits for a significant portion of the population.

An example of weightings is displayed in Table 10. $W_1...W_n$ refers to the weighting of each factor.

	Weighting*
Factor 1	W_1
Factor 2	W_2
Factor 3	W_3
Total	100%

Table 10 - Sample Factor Weights

Weightings should be elicited from program subject matter experts and consolidated to determine the final weights. A means of sorting out disagreement among parties regarding how to weigh different elements should also be established. One option is to use an average stakeholder weighting of each factor, particularly if all stakeholders have equal input. Similarly, if the opinions of certain stakeholders carry more weight than others, a weighted average can be taken of stakeholder averages.

Score and Calculate the Results

Finally, the program should take the assessment criteria and weights and begin to provide a score to each scenario based on their expected impact on the factors identified earlier in this analysis. The program can then fill in the matrix such as the one in Table 11.

$S_{1,1}$ represents the score given to the 1st scenario for its impact on the 1st factor. $S_{2,1}$ would refer to the score given to the 2nd scenario for its impact on the 1st factor.

	Scenario 1 – Implement Corrective Action Plan	Scenario 2 – Do Not Implement Corrective Action Plan
Factor 1	$S_{1,1} * W_1$	$S_{2,1} * W_1$
Factor 2	$S_{1,2} * W_2$	$S_{2,2} * W_2$
Factor 3	$S_{1,3} * W_3$	$S_{2,3} * W_3$
SUM	**Positive (supports corrective action)**	**Negative (impedes mission)**

Table 11 - Sample Assessment Matrix with Weighting

Once weighting has been incorporated, the sum of each column for each alternative should be taken to determine the overall impact.
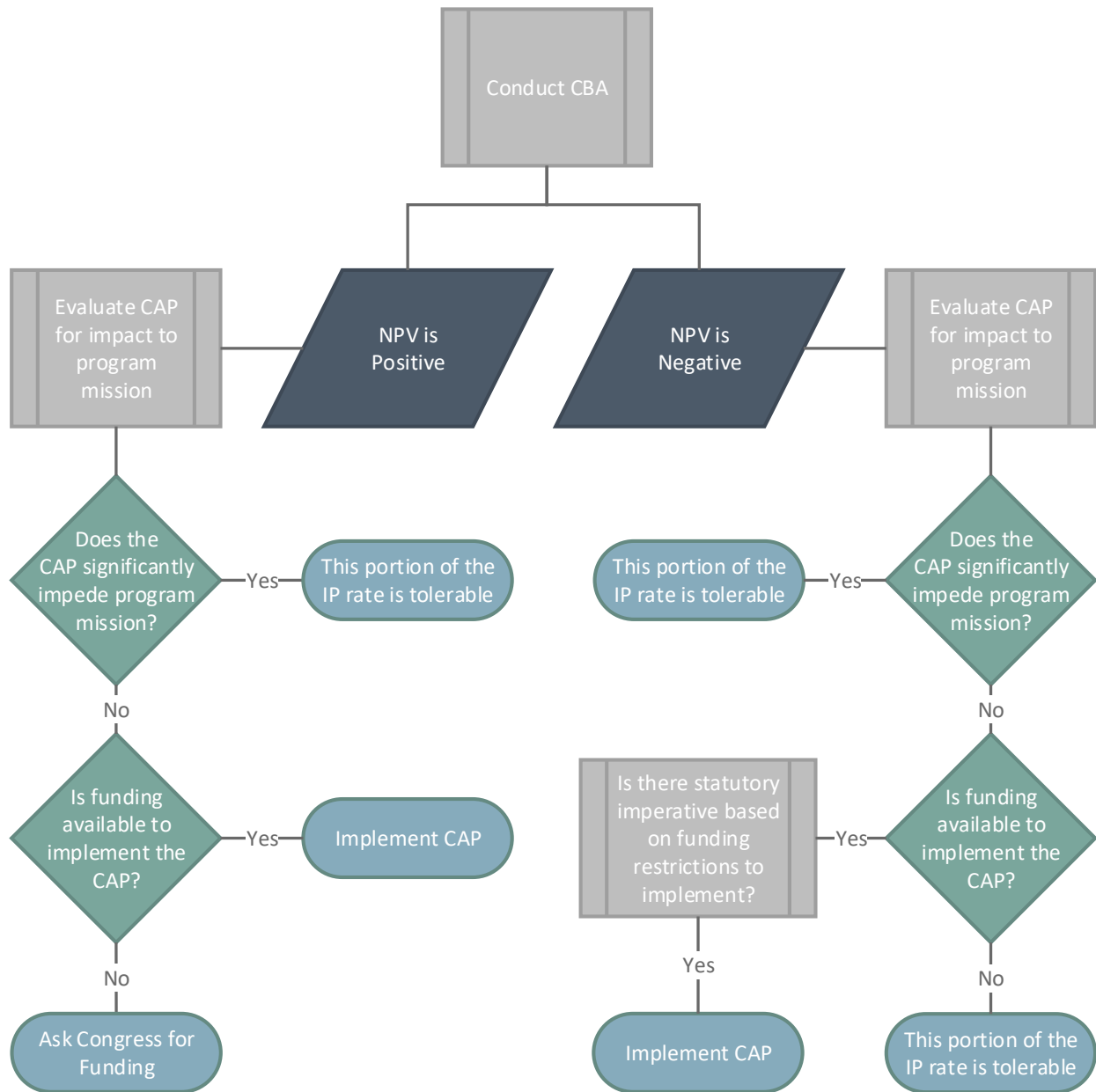
4.6   Step 4 – Make the Optimal Choice

Figure 4 - Optimal Choice Decision Tree

Based on this analysis, the program can then determine if the Corrective Action Plan should be implemented or not, utilizing Figure 1. If the option to implement the Corrective Action Plan results in a lower score than the option to not implement the Corrective Action Plan, then the program should not move forward with the Corrective Action Plan.

Based on identified statutory and regulatory restrictions, there may be alternatives that have to be eliminated, despite being otherwise the optimal choice. Similarly, budgetary constraints may cause a program to not undertake a Corrective Action Plan that would otherwise be optimal. A program may

choose to implement a Corrective Action Plan even if it results in a negative NPV if it does not impede the program mission, and they have the budget. This may be due to the restrictions on reprogramming and transfer of allocated funds. If this is the case, a program should utilize this information to potentially recommend a future change to provide flexibility to the funding for payment integrity efforts that does not result in a negative NPV Corrective Action Plan being implemented due to no other way to spend the funds.

4.7 CONCLUSION

The proposed methodology merges a quantitative CBA framework with a qualitative assessment process to assist government agencies in determining whether to implement a Corrective Action Plan to reduce overpayments. Four steps are involved in the process:
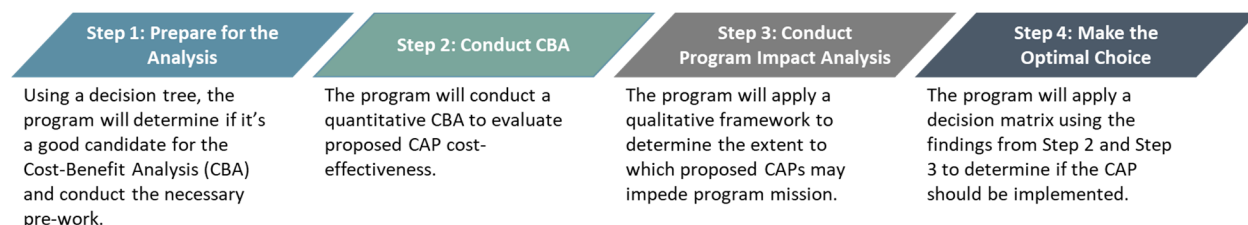
Step 1: Prepare for the Analysis	Step 2: Conduct CBA	Step 3: Conduct Program Impact Analysis	Step 4: Make the Optimal Choice
Using a decision tree, the program will determine if it's a good candidate for the Cost-Benefit Analysis (CBA) and conduct the necessary pre-work.	The program will conduct a quantitative CBA to evaluate proposed CAP cost-effectiveness.	The program will apply a qualitative framework to determine the extent to which proposed CAPs may impede program mission.	The program will apply a decision matrix using the findings from Step 2 and Step 3 to determine if the CAP should be implemented.

Figure 1 - Framework Overview

Ultimately, the proposed methodology seeks to help government agencies decide whether to implement a Corrective Action Plan using the most comprehensive analysis possible while remaining general enough to apply to virtually any agency. The CBA enables the assessment of quantitative elements, while a qualitative process allows agencies to consider factors not easily quantified. It is important to note that neither the CBA nor the Program Impact Analysis can be considered as independent conditions – both must be considered prior to making a decision. The proposed methodology coupled with agency discretion should allow agencies to make better-informed decisions regarding Corrective Action Plan implementation and tolerable rate determination.

5 ADAPTATIONS TO DIFFERENT CASES

In addition to overpayments, agencies should take a risk-based approach to evaluating corrective actions to reduce rates of other improper payments in their programs, namely underpayments, unknown payments, and technically improper payments. This section describes methods and approaches for addressing these improper payment categories. The structural, statutory, regulatory, budgetary limitations and the qualitative CBA can be directly applied to these payment categories. The quantitative CBA must be adjusted. For underpayments, the CBA methodology for overpayments is adapted to account for the distinct costs and benefits of corrected underpayments. The CBA methodology differs for underpayments versus overpayments, primarily because reducing underpayments do not directly benefit the treasury. Instead, the CBA for underpayments views its direct benefits as paying beneficiaries their eligible benefits, which then produces a multiplier effect for its indirect benefit. The CBA also excludes opportunity costs for remedying underpayment rates, because the government must pay these required benefits. For unknown payments, the proposed methodology provides a process for analyzing those payments not known to be proper or improper. In

doing so, agencies can better make decisions on how to address unknown payments and translate those decisions into future reduction efforts. Lastly, this section demonstrates with descriptive statistics that among programs with improper payment rates above the reporting threshold, very few have any technically IPs to speak of. Technically IPs among reporting programs are, in fact, largely limited to the VA, which has taken steps to remedy its high rates. Because technically IPs tend to be a problem within a limited number of agencies but not among programs across agencies, this guide argues a full CBA is not the best approach to determine the appropriate corrective actions.

5.1   PROGRAMS WITHOUT A BASELINE

The CBA framework uses a baseline value of overpayments to gauge the cost-effectiveness of a Corrective Action Plan. Two numbers are used to calculate the baseline overpayments value:

1)   The average value of outlays
2)   The average overpayment rate

For those programs with available data from recent years, the baseline value of overpayments can be calculated from these two inputs. The average value of outlays multiplied by the average overpayment rate equates to the baseline overpayments value. However, requiring recent years' data to establish a baseline value of overpayments excludes those programs which:

1)   Are new and therefore without recent years' data
2)   Are established, but were so structurally changed (for example, by COVID-19 relief)[86] that their previous outlay numbers and/or overpayment rates are likely no longer accurate
3)   Are established, but have seen an increase in overpayment risk (due, for example, to COVID-19 relief), such that their previous overpayment rates are likely no longer accurate

This section aims to identify what values can be substituted for the averages of recent years' outlays and overpayment rates for programs without baselines. Agencies may substitute expected program outlays for past outlays. The greater difficulty is in approximating a rate of overpayment to use in calculating a baseline. The following portion of this section will demonstrate how agencies can estimate rates of overpayments for programs that are without an established/reliable baseline by using overpayment rates of similar but established programs.

It should be noted that this method is, by nature of relying on proxy measures, less reliable. This option of estimating a baseline off of other similar programs should only be undertaken if the program is unable to develop a baseline value based off of historical data. This could be due to the newness of the program, or the fact the program has experienced significant changes in the previous three years,

5.1.1   Estimating a Baseline Overpayment Rate

How should agencies estimate overpayment rates for programs without any, or at least reliable, baselines? This includes brand new programs, but also established programs that have seen significant changes making identification of a baseline from historical data difficult. The most practical means of estimating overpayment rates for such programs is to base those estimates on overpayment rates of similar, established programs. However, "similar" can mean many different things. An analysis of payment accuracy data found that overpayment rates of programs are best estimated based on

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[86] While we use COVID-19 relief as the example, this analysis would apply to any sudden and fundamental change to the program.

overpayment rates of programs administered by the same agency and which are of the same domain; that is, which address the same areas of public interest.

Overpayment rates for programs under consideration should be estimated based on programs which are similar in ways that are predictive of overpayments. In other words, programs should be compared to other programs which are likely to have similar overpayment rates due to sharing characteristics relevant to overpayment rates. This portion of the section evaluates the relevance of three characteristics to program overpayment rates:

1. Scale of program
2. Domain of program[87]
3. Agency administering the program

There is logical rationale behind each of these elements having predictive value for program overpayment rates. Programs of larger sizes might be more vulnerable to error. Programs of certain domains may be more vulnerable to fraud. Different agencies may have internal controls[88] which manage overpayment risk differently, resulting in different overpayment rates for programs across agencies.

Statistical evidence from the 2020[89] and 2019[90] payment accuracy datasets was used to gauge the ability of each of these factors to predict risk of overpayment rates. The analysis begins with the premise that if program scale, domain, or agency is a strong predictor of overpayment, then overpayment rates among programs of the same scale, domain or agency should vary less than do overpayment rates among programs overall. Variation[91] is measured using the coefficient of variation, calculated by dividing the standard deviation[92] of observations by the average of observations. The coefficient of variation provides a sense of how varied datasets are; a higher standard deviation relative to the average indicates more variability among observations, while a lower standard deviation relative to the average indicates less variability among observations. The coefficient of variation is first calculated for programs overall to understand how varied the overpayment rates are for programs overall. The coefficient of variation is then calculated for programs grouped by scale, domain, and agency to determine how varied overpayments are among programs within these groupings. If scale, domain, or agency are predictive of overpayment rates, then the average coefficient of variation for these respective program groupings should be considerably lower than coefficient of variation for programs overall.

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[87] Internal analysis on file with the Office of Federal Financial Management at OMB.

[88] Office of Management and Budget, *M-18-16 Appendix A to Circular 123* (2018), page 2
https://www.whitehouse.gov/wp-content/uploads/2018/06/M-18-16.pdf

[89] Office of Management and Budget, *Payment Accuracy 2020 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/

[90] Office of Management and Budget, *Payment Accuracy 2019 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/

[91] Variance measures the overall dispersion within a dataset from the average. In other words, how much variation in datapoints exists within the dataset? High variance indicates significantly different datapoints with large dispersion from the average. Low variance indicates primarily similar datapoints with little dispersion from the average.

[92] Standard deviation is a measure of dispersion from the average in a dataset. In other words, standard deviation attempts to answer how consistently similar or dissimilar datapoints in a data set are. A high standard deviation indicates that the dataset has many significantly varying datapoints, whereas a low standard deviation indicates a dataset of mostly similar datapoints.

To perform the analysis, the averages, standard deviations, and coefficients of variation of overpayment rates were calculated in the years 2020 and 2019 among programs overall, and then programs grouped by scale, domain, and agency. To group programs by scale, all programs were divided into 5 groups based on outlays, with the programs representing the top 20% of outlays being one group, the programs representing the next highest 20% of outlays being another group, and so on. Programs' domains are determined by the areas of public need those programs serve with programs analyzed falling into one of the following 10 domains:

1. Acquisition and Contracting programs
2. Business programs
3. Disaster Response and Recovery programs
4. Education programs,
5. Family programs
6. Food & Nutrition programs
7. Healthcare/Medical programs
8. Housing/Shelter programs
9. Tax & Refundable Credit programs
10. Work/Employment/Retirement programs

Lastly, only programs belonging to agencies administering more than one program were included in calculating the coefficient of variation for programs grouped by agency, so as not to bias the coefficient of variation downwards.

Table 12, below, shows analysis results:

Year	2020	2019
Number of programs	100	79
Coefficient of variation for programs overall	2.07	1.55
Average coefficient of variation for programs grouped by scale	1.9	1.43
Average coefficient of variation for programs grouped by domain	1.35	1.04
Average coefficient of variation for programs grouped by agency	1.16	.81

Table 12 - Coefficients of Variation Overall and by Agency, Domain, and Scale

Programs overall had a coefficient of variation of 2.07 in 2020, meaning that standard deviation of overpayment rates across all programs was twice the average. Similarly, the standard deviation of overpayments rate among all programs in 2019 was 50% higher.

In both years, the average coefficient of variation for programs grouped by scale was comparable to the coefficient of variation for programs overall. This indicates that programs within size groupings see variation comparable to programs across size groupings, suggesting that program scale is a poor predictor of overpayment rate. Programs grouped by domain had average coefficients of variation modestly lower than programs overall in both 2020 and 2019, indicating that programs within domains see modestly less variation in overpayment rates than do programs across domains and that domain is therefore a modest predictor of program overpayment rate. Programs grouped by agency, however, had average coefficients of variation about half the size of those of programs overall in both years, indicating that program overpayment rates vary within agencies only about half as much as they do across agencies and that agency administration is a relatively strong predictor of program overpayment rate.

Having identified relatively strong predictive value in program agency, modest predictive value in program domain, and little predictive value in program scale, baseline overpayment rates for programs without baselines should be estimated based primarily on the agency administering the program. If overpayment rates for established programs administered by the same agency can be identified, particularly if those programs are of the same domain as the program without a baseline, defensible estimates can be made for overpayment rates to be used in calculating a baseline. The next portion of the section will address details for making such estimates and incorporating them into the model.

5.1.2   Incorporating Baseline Estimates into the Model

The CBA framework for evaluating Corrective Action Plans for programs without baselines is similar to the framework for evaluating Corrective Action Plans for programs with baselines. For a program with a baseline, the CBA framework:

1. Calculates the program baseline value of overpayments based on recent years' outlays and overpayment rates
2. Establishes 20 benefit scenarios based on Corrective Action Plan efficacy, with benefits ranging from 5% of the baseline value of overpayments to 100% of the baseline value of overpayments
3. Measures costs in each year of the time horizon of interest based on user inputs
4. Calculates the Net Present Value of each efficacy scenario in each year of the time horizon of interest
5. Calculates a new tolerable rate for efficacy scenarios and rates with positive NPVs

Steps 2-5 are the same regardless of whether the program of interest has a baseline. The only difference in evaluating Corrective Action Plans for programs without baselines is in step 1. Predicted outlays should be used in lieu of the average past outlays. Overpayment rate should be calculated based, first and foremost, on the agency administering the program. Given that programs grouped by agencies have lower variation relative to programs overall than do other groupings, agency administration is more predictive of overpayment rates than are other types of similarities. Agencies may estimate overpayment rates for programs under consideration by taking average or median overpayment rates for programs within their jurisdictions, particularly if those programs are of the same domain.

The model also accounts for historical data that will assist agencies in conducting sensitivity analyses with different overpayment rates. The model includes the average, maximum, and minimum program overpayment rates for each agency and each program domain in the years 2020 and 2019. The baseline overpayment rate for a program expected to have a higher overpayment rate, for example, may be derived from the highest overpayment rate among programs within the same agency or of the same domain. Similarly, analyses of Corrective Action Plans for programs expected to have lower overpayment rates may derive baseline overpayment rates from the lowest overpayment rate among programs within the same agency or of the same domain.

5.2   UNDERPAYMENTS

The overpayment CBA methodology can also be applied to underpayments and in being so applied would support the goal of advancing equity. Preventing underpayments would significantly impact a program's equity and payment integrity since it would ensure full payments to eligible beneficiaries in need *and* reduce the program's improper payment rate.

The direct and in/direct benefits of corrective actions are calculated and measured each year examined with a given discount rate. Corrective Action Plans with positive NPVs are considered cost-effective, while those with negative NPVs are not.

To evaluate the costs and benefits of a Corrective Action Plan, a baseline value of underpayments is first established by averaging the three most recent years' underpayment rates and total outlays. The average underpayment rate multiplied by the average outlay value provides the baseline underpayments value from which costs and benefits are gauged. Table 13**Error! Reference source not found.** shows those numbers for an example program.

Year	Underpayment Rate	Total Outlays (Millions of $)
2018	1.48%	$56,500
2019[93]	1.48%	$57,000
2020[94]	1.28%	$56,500
Average	**1.41%**	**$56,700**

Table 13 - Example Program Baseline

Multiplying the average underpayment rate of 1.41% by the average outlay value of $56.7 Billion yields a baseline underpayments value of approximately **$800 Million** for the example program.

5.2.1 Benefits

The CBA methodology incorporates direct and indirect benefits of a Corrective Action Plan. Direct benefits are calculated based on the Corrective Action Plan's efficacy; how effectively a Corrective Action Plan reduces underpayments. If, for example, a Corrective Action Plan is expected to reduce the example program's underpayments by 20%, the direct benefits of the Corrective Action Plan are valued at 20% of the $800 Million baseline underpayment value. Therefore, the Corrective Action Plan benefits are valued at approximately $160 Million. Because Corrective Action Plan efficacy rates may vary within and across agencies, the methodology does not assume an efficacy rate. Rather, the methodology provides 20 benefit scenarios with efficacy rates ranging from 5% to 100% reduction of the baseline underpayment value. Agencies will use their best judgment to select efficacy rates for the Corrective Action Plans.

Indirect benefits are calculated using the concept of the multiplier effect; one dollar in government spending boosts economic activity by more than one dollar. Because underpayment reduction entails the government sending money directly to beneficiaries, indirect benefits from the multiplier effect are measured as a function of direct benefits. A Corrective Action Plan enabling a $200,000,000 reduction in underpayments translates to $200,000,000 in disbursements to entitled recipients. If the multiplier effect is such that one dollar of government spending generates $1.10 in economic activity, the

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[93] Office of Management and Budget, *Payment Accuracy 2019 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/
[94] Office of Management and Budget, *Payment Accuracy 2020 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/

methodology adds $20,00,000 in indirect benefits as a result of an indirect multiplier effect for $200,000,000 in direct benefits.

Table 14provides an example of the methodology incorporating multiplier effects:

Direct Benefits	Indirect Benefits if $1 in spending generates $1.50	Total Benefits
$100	$50	$150

Table 14 - Multiplier Effect Examples (Millions of Dollars)

Multiplier effects generally vary based on the strength of the economy. When the economy is shrinking, households receiving government income tend to spend more of that money. When the economy is growing, households are more likely to save that money. Because more spending generates more economic activity, the multiplier effect in the CBA methodology changes value depending on whether the year in question sees an economic downturn. Research also indicates that the difference between the multiplier effect in economic expansion versus in a downturn is more muted for low-income households[95]. These households are more likely to spend than save additional income relative to their higher-income peers regardless of the condition of the economy, and as such programs benefiting low-income households will see a larger multiplier effect in non-downturn years. A literature review into the multiplier effect offers specific values drawn on by the methodology for years with and without economic downturns:

- A National Bureau of Economic Research study estimated that $1 of government spending generates approximately $1.20 of economic activity during economic expansions and $3.00 in economic activity during downturns.[96]
- A University of California at Berkeley study estimated that $1 of government spending has no multiplier effect during economic expansions but generates an additional $2.50-$3.00 in economic activity during downturns.[97]
- An Economic Research Service study of the SNAP program estimated that $1 in SNAP benefits generates approximately $1.80 in economic activity during economic expansions and approximately $2.50 during economic downturns.[98] Note that the SNAP program benefits primarily low-income households, so the multiplier effect is somewhat higher in expansion years relative to downturn years in this example than in the preceding ones.

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[95] VOX EU, *Household Heterogeneity and the Government Spending Multiplier* (2019), Page 1
https://voxeu.org/article/household-heterogeneity-and-government-spending-multiplier
[96] National Bureau of Economic Research, *Measuring the Output Responses to Fiscal Policy* (2012), Page 9
https://pubs.aeaweb.org/doi/pdfplus/10.1257/pol.4.2.1
[97] University of California at Berkeley, *Fiscal Multipliers in Recession and Expansion"* (2011)*,* Page 11
https://eml.berkeley.edu/~ygorodni/FiscalMultipliersInRecessionAndExpansion.pdf
[98] United States Department of Agriculture Economic Research Service, *Quantifying the Impact of SNAP Benefits on the Economy and Jobs,* (2019)*,* Page 1, https://www.ers.usda.gov/amber-waves/2019/july/quantifying-the-impact-of-snap-benefits-on-the-us-economy-and-jobs/

Past economic research indicates for the households overall, $1 in underpayments reduction yields between $2.00 and $3.00 in economic activity during economic downturns and between $1.00 and $2.00 during economic expansion depending on whether the underpayments corrected are benefiting low-income communities. For purposes of the methodology, "downturn years" are those with at least one quarter of negative GDP growth from the previous year. Benefits in a year specified by the user as a downturn year are calculated using the higher multiplier, while benefits in years specified by the user as non-downturn years are calculated using the lower multiplier.

The methodology does not attempt to predict which years will have economic downturns because economic downturns are notoriously difficult to predict.[99] However, recessions have historically lasted an average of one year since 1965,[100] and economic downturns have historically occurred every four to five years.[101] As such, users of the methodology can reasonably assume that zero, one, or two years of the five-year time horizon will probably see an economic downturn, with one year being the most likely. The presence of more or fewer downturns in the time horizon has more of an impact on the final Corrective Action Plan NPV than do the specific years in which those downturns occur. To best replicate the real-world economy, the user is advised to input one year of their choosing as a downturn year. The user can then conduct sensitivity analyses by examining results with different combinations of downturn years.

5.2.2   Costs

Direct and indirect costs of the Corrective Action Plan are considered, as well. Direct costs include fixed and variable costs involved in implementing and maintaining the corrective action(s), including contractor overhead, training costs, and equipment purchases. Administrative costs are also included in the methodology as direct Corrective Action Plan costs. Administrative costs are calculated as a function of fixed and variable costs for each corrective action. For instance, if a corrective action costing $100,000,000 in fixed and variable costs each year carries a 10% administrative cost rate, administrative costs of that corrective action will equal $10,000,000. Administrative cost rates are assumed constant over time.

The indirect cost considered by the CBA methodology is the paperwork burden on recipients. Agencies are required by the Paperwork Reduction Act to estimate the paperwork burden of new regulations; different agencies monetize these values differently. The methodology uses an example program targeting low-income people and therefore monetizes burden-hours using the federal minimum wage of $7.25/hour. Unlike the CBA methodology for overpayments, the CBA methodology for underpayments does not include parameters for opportunity cost. This is because the agency is not entitled to the money; the beneficiary is. Therefore, the methodology does not consider any other use for the money aside from giving it to the entitled beneficiary.

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[99] Federal Reserve Board, *Predicting Future Recessions* (2019)*,* Page 1
https://www.federalreserve.gov/econres/notes/feds-notes/predicting-future-recessions-20190506.htm
[100] Federal Reserve Board, *Predicting Future Recessions* (2019)*,* Page 1
https://www.federalreserve.gov/econres/notes/feds-notes/predicting-future-recessions-20190506.htm
[101] National Bureau of Economic Research, *US Business Cycle Expansions and Contractions* (2020)*,* Page 1
https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions

5.2.3   Time Horizon

Benefits and costs, once estimated, are subjected to an NPV analysis over the 5-year time horizon in this example. Costs are subtracted from benefits in each of the 20 efficacy scenarios for each year. The NPV of that difference is then calculated based on the discount rate input by the user in the Costs section (Federal government standard discount rate is 7%[102]) for each year of the time horizon. In the example program, a Corrective Action Plan with a 40% efficacy rate based on the input benefit and cost parameters does not yield a net present value until year 4.

Efficacy	Year 0 NPV	Year 1 NPV	Year 2 NPV	Year 3 NPV	Year 4 NPV	Year 5 NPV
40%	-$587	-$535	-$319	-$109	$135	$312

Table 15 - Example NPV (Millions of Dollars)

5.2.4   Results & Use

The ultimate purpose of the CBA methodology is to gauge whether a Corrective Action Plan under consideration is cost-effective. The CBA determines the potential Corrective Action Plan's cost-effectiveness by calculating its NPV over a given time horizon. Table 16 shows an example set of NPVs for three different efficacy rates:

Efficacy Rate	Year 0 NPV	Year 1 NPV	Year 2 NPV	Year 3 NPV	Year 4 NPV	Year 5 NPV
20%	-$292	-$222	-$142	$58	$147	$268
30%	-172	$10	$194	$558	$739	$946
40%	-$52	$242	$532	$1,000	$1,300	$1,600

Table 16 - NPVs by Efficacy Rate (Millions of Dollars)

The methodology calculates the Corrective Action Plan's NPV will turn positive in Year 3 if the plan is 20% effective; that is, it reduces underpayments by 20%. However, at 30% or 40% efficacy, the NPV turns positive in Year 1. Agencies can align their estimates of their Corrective Action Plans' efficacies with the projected NPV in each year. For instance, if the agency administering the example program predicts a Corrective Action Plan will reduce underpayments by only about 15%, then the agency must decide whether they are willing to wait at least 3 years for the Corrective Action Plan to be cost-effective. If they estimate over 30% efficacy, however, the agency can make a different calculation.

The CBA methodology also forecasts reduced underpayment rates based on whether a Corrective Action Plan's NPV is positive. Table 17 shows the new underpayment rate calculated for each year based on different efficacy scenarios. Where NPV is negative, the forecasted overpayment rate remains the baseline underpayment rate of 1.41%. Where NPV is positive, the benefits of the Corrective Action Plan are translated into a rate reduction, yielding a new, lower underpayment rate. In some cases, the direct benefits from the underpayments reduction and the indirect benefits may equate to more than the total baseline value of underpayments, resulting in tolerable rates of 0%. That is, under certain efficacy scenarios, and multiplier and cost parameters, no underpayments would need to be tolerated due to cost-ineffectiveness of reduction because reducing the underpayments rate would always be cost-effective due to the direct benefits of underpayment reduction and the indirect benefits from the multiplier effect being substantially greater than the baseline value of underpayments. Note that this is

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[102] Office of Management and Budget, *Circular A-94 Guidelines and Discount Rates for Cost-Benefit Analysis* (1992), Page 9 https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A94/a094.pdf

only the case with certain parameters, and only relates to cost-effectiveness; it does not assert that no underpayments should be tolerated at all, only that certain parameters lead to the model finding that reducing underpayments is almost always a good investment.

Corrective Action Plan Efficacy Rate	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5
20%	1.41%	1.41%	1.41%	0%	0%	0%
30%	1.41%	0%	0%	0%	0%	0%
40%	0%	0%	0%	0%	0%	0%

Table 17 - Overpayment Rates by Corrective Action Plan Efficacy Rate

5.3 UNKNOWN PAYMENTS

While overpayments and underpayments are clearly improper, some payments counted as improper in fact are not known to be either proper or improper. PIIA states, "For the purpose of producing an [improper payment] estimate, when the executive agency cannot determine, due to lacking or insufficient documentation, whether a payment is proper or not, the payment shall be treated as an improper payment."[103] Reporting unknown payments (UPs) as IPs may result in overestimation of the overall estimate of improper payments, possibly substantially so, depending on the true propriety of those payments. Programs with a substantial number of UPs will be able to gauge more accurate estimates of IP rates if they can determine whether those UPs are proper or improper.

Appendix C to OMB Circular A-123 states, "[a]n unknown payment will eventually be determined to be proper or improper"[104], encouraging programs, as a best practice, to undertake an assessment of their UPs to properly identify them. The proposed methodology provides a process by which agencies might weigh the costs and benefits of identifying the propriety of unknown payments. In particular, the methodology proposes agencies:

- Perform an analysis into unknown payments, to determine their propriety, which will be used as a baseline for future estimations.
- Extrapolate, based on the findings of the initial analysis, the potential benefits of future analysis of unknown payments, using the potential recovery of overpayments as benefits to weigh against analysis costs.
- If the potential benefits identified based on the initial analysis outweighs costs, then programs should analyze their unknown payments in order to identify overpayments which can then be recovered.

5.3.1 Conducting & Extrapolating from an Unknown Payment Analysis

The proposed methodology holds that agencies with higher unknown payment rates should first conduct an analysis to ascertain:

1. Whether the unknown payments are proper or improper.

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[103] United States Congress, *Payment Integrity Information Act of 2019* (2019) § 3352(c)(2), Page 1
https://www.congress.gov/bill/116th-congress/senate-bill/375/text
[104] Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123* (2021), Page 12,
https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf

2. How many of the improper payments are overpayments, underpayments, or technically improper payments.

In future years, agencies can extrapolate from this analysis the share of unknown payments which are likely proper or improper. Further, if the programs can identify the percentage of overpayments in their initial examinations, then they may be able to extrapolate the likely dollar value of overpayments as a portion of unknown payments.

Those likely dollar values based on the analysis can be considered the 'benefit' of identifying unknown payments as proper or improper. Therefore, the program could conduct a rough estimation of the costs of identification and subsequent recovery activities against the benefits of recovering the identified overpayments. If a program finds its unknown payment rate fluctuating from year to year by more than a set amount, perhaps one standard deviation from the average of the previous three years, then they can perform another analysis to obtain a more accurate baseline.

5.3.2   Possible Benefits of Identifying the Propriety of Unknown Payments

Another incentive programs may have to identify the propriety of unknown payments is the opportunity to reduce unknown payments and increase identified proper payments. However, this would only likely benefit programs with:

1. A significant amount of their overall IP rate made up of unknown payments.
2. Would also require a relatively significant portion of their unknown payments to be proper payments.

If through the identification of unknown payments, the program was likely to reduce their IP rate below the statutory threshold, then it may find it beneficial to expend resources on identifying unknown payments as proper or improper, even if they do not end up recovering a significant amount of monies from overpayments.

2020 payment accuracy data[105] shows few programs were likely to reduce their IP rate below the statutory threshold through the identification of unknown payments. In fact, if the unknown payment rate reflected the overall rate of underpayments, overpayments, and technically IPs, only 6 of the 100 programs with available IP data would be brought below the statutory threshold. Therefore, this second benefit is unlikely to be realized by many programs, and the focus should primarily be on the potential benefit of recovery activities, rather than the potential to be brought below the statutory threshold.

5.3.3   Final Points on Unknown Payments

It would be best practice to conduct an analysis of the unknown payments to inform future decision-making. The analysis could inform whether the percentage of proper payments is likely to bring the program below the statutory compliance threshold, or if they would likely recover more in overpayments than they would expend in identification and recovery costs. Without some expectation of the likely makeup of the unknown payment population, programs cannot make informed decisions about what they should do with their unknown payments.

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[105] Office of Management and Budget, *Payment Accuracy 2020 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/

5.4 TECHNICALLY IMPROPER PAYMENTS

Payments made in the right amount to the right recipients and known to have been so are still considered "technically improper" if the payment process failed to follow all applicable statutes and regulations.[106] The proposed methodology does not include an approach for analyzing Corrective Action Plans intended to address technically improper payments, because an analysis of 2020[107] and 2019[108] payment accuracy data found that:

1. Most programs do not face significant technically IP rates.
2. The programs with pervasively high technically IP rates were administered by the VA, which has already taken steps to address the causes of those high rates.

Future analysts may examine the efficacy and cost-effectiveness of the VA solutions to the high technically improper payment rates in 2020 and 2019. This section, however, will focus on:

- Statistical evidence that technically IPs are not a problem pervasive across programs and agencies
- Statistical evidence that high technically IP rates are a problem largely confined to the VA
- Solutions the VA has implemented to address the causes of high technically IP rates in their programs

5.4.1 Statistical Evidence of Non-Pervasiveness

Payment accuracy data from the years 2020 and 2019 were analyzed to gauge the extent to which technically IPs impact government programs and agencies. In both years, technically IPs were not a pervasive problem, affecting only a handful of programs. Consider:

- Of the 100 programs with available improper payment data in 2020, 83 had technically IP rates of 0%, while 6 had technically IP rates of under 1%.
- Of the 79 programs with available improper payment data in 2019, 66 had technically IP rates of 0% while 6 had technically IP rates of under 1%.
- Programs in both years had median technically IP rates of 0% with much higher averages and standard deviations, indicating a concentration of high technically IP levels among a small number of programs.

5.4.2 Statistical Evidence of Concentration in the VA

Besides there only being a few programs with significant technically IP rates, those programs tend to be concentrated under the administration of the VA. Consider:

- In 2020, the average program administered by the VA had a technically IP rate of 15%. Only three other agencies had average program technically IP rates above 0%, with the highest being USDA at 2.4%

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[106]Office of Management and Budget, *M-21-19 Appendix C to OMB Circular A-123 (2021),* page 10, https://www.whitehouse.gov/wp-content/uploads/2021/03/M-21-19.pdf
[107]Office of Management and Budget, *Payment Accuracy 2020 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/
[108] Office of Management and Budget, *Payment Accuracy 2019 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/

- In 2019, the average program administered by the VA had a technically IP rate of 16%. Only two other agencies had average program technically IP rates above 0%, with the highest being DOD at .25%

Eight unique programs constituted the top five highest technically IP rates in each of the years 2020 and 2019. Table 18 shows these programs:

Agency	Program	2020 Technically IP Rate	2019 Technically IP Rate
VA	Purchased Long Term Services and Support	81.72%	50.91%
VA	VA Community Care	75.09%	71.93%
VA	Communications, Utilities, Other Rent	11.98%	41.61%
USDA	FNS School Breakfast Program	9.04%	0%
VA	Supplies and Materials	9.00%	17.84%
USDA	FNS National School Lunch Program	8.39%	0%
USDA	FSA Hurricane Harvey Emergency Conservation Program	8.39%	0%
VA	Medical Care Contracts and Agreements	0.99%	38.7

Table 18 - Top Program Technically IP Rates

As Table 18 illustrates, there are more VA programs than other agency programs on the list overall and among those with the highest technically IP rates. Those programs administered by the VA were also more likely to have significant technically IP rates in both years. All USDA programs with high technically IP rates in 2020 had rates of 0% in 2019, indicating that the 2020 rates may have been isolated instances rather than pervasive problems. All the programs with technically IP rates above 10% in either year were administered by the VA, with some even exceeding 40%.

5.4.3   Technically IPs & the VA

Technically improper payments affected only a handful of programs seriously or pervasively in the years 2020 and 2019. Among those programs, most programs impacted, and virtually all of those most seriously impacted belonged to the VA. Most agencies saw average technically IP rates at 0% in both 2020 and 2019, while only the VA saw rates above 1% in both years. As such, any prudent assessment of technically IPs would focus primarily on the VA and why the agency is particularly susceptible to technically IPs.

One major source of the VA's high technically IP rates was tolerating improper payments from non-compliant contractors under Federal Acquisition Regulation.[109] Because the program mission required that the VA still obtain services from contractors who would not comply with FAR, the agency did so, and wound up accepting high rates of technically improper payment. Currently, the VA is undertaking a

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[109] Department of Veterans Affairs, *FY 2019 Agency Report,* (2020), Page 229.https://www.va.gov/finance/afr/index.asp

Corrective Action Plan to remedy the identified root causes, with a set completion date of 2024.[110] Upon completion of this Corrective Action Plan, VA technically IP data should be examined to gauge the plan's efficacy.

6 LINKAGE TO EQUITY

Federal agencies seek not only to reduce improper payment rates, but also to ensure that steps taken to reduce improper payments do not impose inequitable burdens on beneficiaries. Major programs administered by Federal agencies such as Social Security, the Supplemental Nutrition Assistance Program (SNAP), 504 loans, the Community Development Block Grant, and Medicaid assist underserved peoples and communities. As such, controls intended to reduce overpayments, be they under consideration or already in existence, must affect beneficiaries in an equitable manner, not cutting off society's most vulnerable from essential lifelines. This section will address what burdens caused by financial management processes are, how they can be measured, and how they can be reduced to enhance equity.

The social benefits of these programs often exceed the dollar amount of the outlay through the multiplier effect – when a dollar in government spending increases consumer spending. A study by USDA's Economic Research Service[111] examined the multiplier impact of a hypothetical $1 billion increase in SNAP benefits and found that this expansion of benefits during a slowing economy would increase Gross Domestic Product (GDP) by $1.54 billion and support 13,560 jobs, including nearly 500 agricultural jobs (farming, forestry, fishing, and hunting). The expanded benefits would also boost income in the agriculture industries by $32 million.

Even in cases where the multiplier effect isn't observable, there may be intangible benefits of government spending. Children who participate in youth development programs such as Big Brothers Big Sisters, which receives grant funding from the Department of Justice, learn resilience, compassion, and other intangible skills that benefit them throughout their lifespan. These benefits remain difficult to quantify but contribute to the social equity goals of government spending.

6.1 BURDENS' EFFECT ON ACHIEVING EQUITY

Despite the ambitious goals of government spending, there are many unreasonable[112] impediments to achieving programs' intended impacts, and in some cases, the administration of the program itself may create these impediments. These impediments can also be referred to as burdens. The Paperwork

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[110] Department of Veterans Affairs *"FY 2020 Agency Report"* (2021), Page 31.
https://www.va.gov/finance/docs/afr/2020VAafrFullWeb.pdf
[111] United States Department of Agriculture, *The Supplemental Nutrition Assistance Program (SNAP) and the Economy: New Estimates of the SNAP Multiplier* (July 2019),
https://www.ers.usda.gov/webdocs/publications/93529/err-265.pdf?v=1828.1
[112] For the purposes of this guide, unreasonable is defined as going beyond the limits of acceptability and fairness, which includes a level of subjectivity addressed in the framework.

Reduction Act (PRA)[113] provides on definition of burden as the value of both the time and the effort required to fulfill a collection along with the financial cost.

Programs often require the eligible recipient to verify their identity, income, or bank information – which can be difficult to reliably provide for certain populations. A 2019 report[114] by the FDIC estimated 5.4% of the U.S. population were unbanked. Moreover, 13.8% of Black households and 12.2% of Hispanic households were unbanked in 2019. The inequity in bank access can have significant impacts on access to government benefits. In some cases, an individual may be unbanked and lack a consistent home address, which would make it difficult to reliably receive a tax refund.

In other cases, the way the eligible recipient is expected to submit the information can be an unreasonable burden. 21 million people in the United States don't have access to reliable internet.[115] In some rural communities, as many as 3 in 10 people may be without internet.[115] In this context, the prospect of reliably downloading, printing, hand signing, and submitting a document with an ink signature becomes a challenge. These challenges may delay the completion of eligibility forms. In bad cases, it could lead a recipient to miss a deadline. In the worst cases, it may completely deter eligible participants from enrolling at all.

These unnecessary burdens are not limited to individuals, but also extend to entities applying for grants or loans. Administrative overhead associated with applying for these grants and loans, as well as the cost of compliance with reporting and transparency requirements are common examples of burden to organizations.

There are also significant challenges with some attempts to reduce the 'human' input to processes meant to promote payment integrity. Use of algorithms to automate decision making has resulted in unforeseen consequences to equity, wherein the historical data used, and decision criteria built into the algorithm may have incorporated bias, unintentionally. For example, if an algorithm learns how to make decisions on approving an application based on the decisions made by humans, any bias that impacts the human's decision making could be learned by the algorithm, unintentionally.[116] These biases could impose inequities on a program's payment process, which undercuts its original intent.

6.2 BALANCING RISK AND POLICY OBJECTIVES

Some degree of burden is necessary to prevent improper payments and protect the government and the American public from error, fraud, waste, abuse, and mismanagement. For example, the burden is on the tax filer to show proof of earned income when seeking the Earned Income Tax Credit. Without that burden, ineligible filers and fraudsters could more easily acquire those funds either through

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[113] Office of Information and Regulatory Affairs, *Estimating Burden | A Guide to the Paperwork Reduction Act*, (n.d.), pra.digital.gov/burden/

[114] Federal Deposit Insurance Corporation, *How America Banks: Household Use of Banking and Financial Services,* (2019), https://www.fdic.gov/analysis/household-survey/2019report.pdf

[115] *21 Million Americans Still Lack Broadband Connectivity,* (Pew Trusts, July 10, 2019), https://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2019/07/21-million-americans-still-lack-broadband-connectivity

[116] James Manyika, Jake Silberg, Brittany Presten, *What Do We Do About the Biases in AI?,* (Harvard Business Review, October 25th, 2019), https://hbr.org/2019/10/what-do-we-do-about-the-biases-in-ai

misrepresentations or errors. Per 2020 Payment Accuracy Data, programs reported $75 billion in monetary loss to improper payments.[117] This cash loss also reduces the intended equity impacts as monies are not going to the greatest number of eligible recipients.

Burden is neither inherently good nor bad, but something to be balanced with a program's mission. Risk appetite and tolerance help determine the acceptable level of PI risk that a program is willing to accept in pursuit of their policy objectives. A program should not establish a level of tolerance that is solely based on the quantitative CBA introduced previously. Pursuant to the qualitative CBA, once risk appetite and tolerance are established to reflect those tradeoffs, a program may determine that mitigating the root cause of an improper payment excessively impacts its objectives. At this point, a program should establish an upper and lower limit to their IP rate and only maintain the level of control reasonable to keep the IP rate within those limits, or tolerance thresholds. This consideration of equity may be different than the considerations of the qualitative CBA, as equity requires the consideration of if there is disparate impact to access or burden across different populations.

Excessive controls, while potentially effective in reducing improper payments, could impose a disproportionate burden on the population the program is intended to serve, and thus, to avoid undermining program mission, a program could relax controls without significantly increasing the risk of improper payments. This guide posits that this balance is achievable and presents a framework for achieving this balance in the following sections.

This assessment should not only be applied to proposed Corrective Action Plans but also to existing processes to assess if there are opportunities to reduce existing burden without significantly impacting the IP rate.

6.3   ADDRESSING BURDEN

Burdens that do not serve to effectively prevent IPs, and inequitably impede upon beneficiaries' access to benefits may be considered unreasonable. Burden includes the value of both the time and the effort required to fulfill a collection along with the financial cost.[118] As illustrated by the rates of unbanked Americans or those who lack reliable internet access, burden is not uniformly experienced across social groups.

There are also burdens to organizations and entities that receive grants or loans, in the form of administrative overhead, costs and labor associated with applying for funds, and the costs and labor associated with complying with reporting and transparency requirements. The PRA has set out expectations for programs to reduce burden associated with applying for Federal relief programs, but there are often still areas where the agencies could improve. For example, GAO reports have found that there are instances where requirements for benefits programs are not easily accessible to applicants,

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[117] Office of Management and Budget, *Payment Accuracy 2020 Dataset* (n.d.), distributed by PaymentAccuracy.gov, https://www.paymentaccuracy.gov/payment-accuracy-resources/

[118] Office of Information and Regulatory Affairs, *Estimating Burden | A Guide to the Paperwork Reduction Act*, (n.d.), pra.digital.gov/burden/

and that controls in place intended to help with compliance with the PRA should be strengthened to improve the burden reduction.[119]

To achieve a program's equity goals, it's necessary that burden is evaluated and, in some cases where deemed unreasonable, reduced. Research in the burgeoning field of user experience design has demonstrated that the number of required fields, optimization for mobile, and amount of personal information required can have significant effects on whether a respondent completes a form or not. These insights apply to the administration of many government programs and should be considered to fully realize equity goals.

Figure 5 introduces a framework to begin to apply these concepts to government programs.

6.4   A FRAMEWORK TO BALANCE EQUITY AND PAYMENT INTEGRITY

A three-part framework is proposed to balance a program's equity goals and payment integrity: identify the burden, assess the impact of reduction, and finally, reduce the burden and fortify the program to compensate for any increase in IP risk. Figure 5 visualizes this process: **Identify, Assess, Reduce & Fortify.**
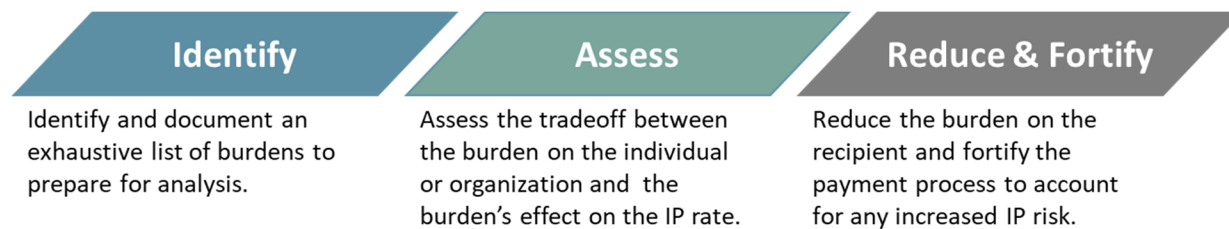
Identify	Assess	Reduce & Fortify
Identify and document an exhaustive list of burdens to prepare for analysis.	Assess the tradeoff between the burden on the individual or organization and the burden's effect on the IP rate.	Reduce the burden on the recipient and fortify the payment process to account for any increased IP risk.

Figure 5 - Framework to Balance Equity and Payment Integrity

6.4.1   Step 1: Identify the burden

First, a program should identify existing burden on the eligible beneficiary. At the end of this step, the agency will have identified and documented an exhaustive list of burdens to prepare for analysis.

These burdens can take many forms; ask the questions identified in Table 19 to begin to identify potential burdens[120]:

Question	Burden Type
How much time, effort, and cost will it take for respondents to understand what information the agency is asking for and how to collect it?	Reviewing instructions
How much time, effort, and cost will it take for the respondents to locate, gather, and compile necessary documentation required for the information collection?	Compiling materials
What technology and systems do respondents need to gather, process, store, and send information?	Technology and systems

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[119] Government Accountability Office, *Small Business Administration: Agency Has Controls to Comply with Paperwork Reduction Act but Could Improve Accessibility and Consistency of Disaster Loan Information,* (November 2016), https://www.gao.gov/assets/gao-17-67.pdf

[120] Office of Information and Regulatory Affairs, *Burden Activities*, (n.d.), https://pra.digital.gov/burden/activities/

If a previous collection has been updated or changed, how will the current methods need to be adjusted?	Adjusting existing methods
Will the collection require staff, contractors, or other agents to undergo training to respond?	Training personnel
What must be done to send the collected information to the federal agency requesting it?	Sending and disclosing information
Will respondents be required to physically travel to specific locations for face-to-face meetings?	Travel/attendance

Table 19 - Burden Types

To accelerate and organize the identification step, agencies can leverage User Experience (UX) and Lean Process Improvement concepts and methods.

User Experience and Payment Integrity

User experience (UX) focuses on having a deep understanding of users, what they need, what they value, their abilities, and their limitations.[121] UX best practices promote improving the quality of the user's interaction with a product and perceptions of benefits and any related services. To identify potential burden, a program may employ a Usability Test, which refers to evaluating a benefit or service by testing it with representative users. During the test programs will:

- Learn if participants can complete specified tasks successfully
- Identify how long it takes to complete specified tasks
- Determine how satisfied participants are with the application and payment systems, including outward facing websites and customer service
- Identify changes required to improve user performance and satisfaction
- Analyze the performance to see if it meets desired usability objectives

In addition to a full usability test, a program could also conduct contextual interviews, focus groups, journey mapping, or surveys to understand common challenges a user may experience when completing the required steps in the enrollment process.

It is important to select scenarios and participants that represent the entire population of end-users. For instance, since broadband access may be a challenge for some users in rural areas, it's important to include those users and an unreliable internet scenario into the research to identify how the burden may change in this context. Understanding that the population of end-users is made up of many unique individuals with different needs, the program should consider the various customer experience channels that exist, and if there are gaps in the ability of the current channels to meet customer needs.

Having multiple channels to address specific subsets of a program's user-base can help to address the gaps in service. For example, the Pulaski County Government in Arkansas saw some individuals struggle to fully transition to paying taxes online. While the online method was still the primary service channel

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[121] Usability.gov, *User Experience Basics,* (n.d.), https://www.usability.gov/what-and-why/user-experience.html

for their general user-base, they addressed the gap by expanding availability of services to grocery stores.[122] This enabled each customer to access a service channel that was least burdensome for them. Not all channels need to be utilized equally, but they should be available to ensure that customers are directed to the channel that will most effectively meet their needs. By evaluating different service channels, the government agency could assess the burdens imposed by a single channel.

Lean Process Improvement and Payment Integrity

In order to identify processes which may be considered unreasonable, programs may benefit from a framework such as Lean, which presents the idea of seven types of waste that can be eliminated to improve business processes and efficiency.[123] By looking through current processes, programs can identify areas of waste. Waste as referred to in the context of Lean refers to processes which oftentimes can be eliminated or addressed due to the fact that they are not value-additive. An example of waste could be over-processing, which could take the form of requesting redundant information from applicants, which the program already has. There may be no reason the applicant is required to provide the same information over again and is solely a burden to the individual.

Many Lean frameworks also include Kaizen – Japanese for *rapid improvement processes* – which focuses on eliminating waste, improving productivity, and achieving sustained continual improvement in targeted activities and processes of an organization.[124] Kaizen's methodology aims to involve employees at all levels in the analysis of processes, which provides unique insights as to the day-to-day challenges related to different internal controls. Using analytical techniques such as value stream mapping[125] and "the 5 whys"[126], participants seek to rapidly eliminate waste and improve efficiency. These methods could accelerate the identification of potential burdens on the recipient within a program's payment process.

The application of Lean frameworks should be strictly limited to identification in this step. Lean can assist programs in identifying processes which may be considered waste, but the actual assessment of whether or not the burden should be eliminated comes in the next step. Lean does not provide a program with the criteria through which they should assess the process, only the framework to identify the burden itself.

6.4.2   Step 2: Assess the Impact of Reducing the Burden

Once burden has been identified, the program should assess whether the burden is unreasonable. An unreasonable burden does not serve to effectively prevent IPs, and inequitably impedes upon beneficiaries' access to benefits. At the end of this step, the agency will have assessed the tradeoff between the burden on the individual or organization and the burden's effect on the IP rate.

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[122] Zack Quaintance, *When Government Goes Digital, What Happens to the Unbanked?,* (Government Technology State & Local Articles - e.Republic, March 2021), https://www.govtech.com/gov-experience/When-Government-Goes-Digital-What-Happens-to-the-Unbanked.html

[123] Christena Shepherd, *Lean for Government: Eliminating the Seven Wastes* (NASA, n.d.) https://ntrs.nasa.gov/api/citations/20120016881/downloads/20120016881.pdf

[124] Environmental Protection Agency, *Lean Thinking and Methods – Kaizen,* (n.d.), https://www.epa.gov/sustainability/lean-thinking-and-methods-kaizen

[125] Value stream mapping is an activity in which the user creates a visual representation of a process from start to end, specifying all key steps to support the identification of waste.

[126] The 5 whys are a method through which to identify cause and effect relationships by continually asking why something occurs, which can be applied to business processes to support the identification of waste, as well as potential remedies for problems.
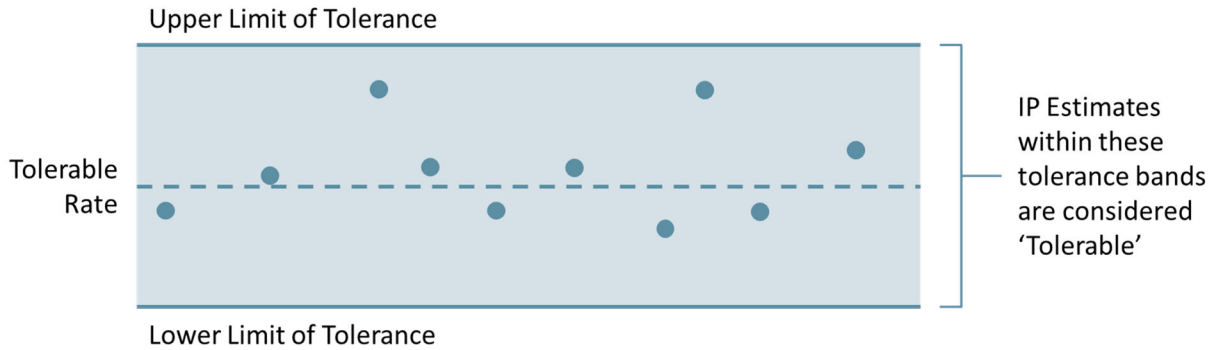
Figure 6 - Representation of Tolerance

Utilizing the concept of risk tolerance, programs should have established an upper and lower bound within which their IP rate could be considered tolerable. This is represented in Figure 6. To assess the impact of the change, programs should assess what they believe the IP rate would be in an environment where the burden has been reduced. If the IP rate is estimated to remain within the tolerance levels, then the program should make the reduction.

Direct and indirect costs and benefits should also be considered when a program is assessing burden reduction. For example, if a proposed burden reduction increases the risk of improper payments by, say, $10,000, then the program should consider what the benefit of that burden reduction would be. While the social benefit is a more difficult number to quantify, the program could use as a proxy, how many more eligible applicants would be able to access benefits as a result of the change. Perhaps it's 1,000 applicants, each receiving $20. In this case the risk of improper payments may be tolerable since the benefit, which equals $20,000, exceeds the IP rate, which equals $10,000.

However, what if the total number of additional applicants that are expected to receive the payment as a result of the change is only 400? The benefits of this program, as quantified in dollars outlaid, would only equal $8,000, which is less than the expected improper payment increase of $10,000. In this case, this change may be intolerable. However, this calculation does not account for the indirect social benefits such as the multiplier effect or intangible benefits of proper outlays, such as the reputational impact. In such a case, the program would need to consider the decision, their risk tolerance, and if they feel the social benefits and reduction of burden outweigh the $10,000 in increased improper payments. Equity is not easily quantified, which necessitates careful consideration of the tradeoffs.

The concept of burden is notably addressed in the PRA, but whether the burden is applied inequitably across populations has not been fully explored. Perhaps what would take one individual, with access to an accountant, lawyer, or other expert, only one hour, could take an individual without access to such expertise, five hours. In some worst-case scenario, the burden would result in the individual or organization being completely deterred from applying, eliminating their access to benefits. In the calculation and assessment of burden, these considerations should be included. This could be done by using an average, or weighted average, of the different estimations of burden hours and burden costs among different populations.

When it is less clear that the modification or removal of a control would have a tolerable impact on the IP rate, it is important for programs to, in parallel with consideration of how to reduce burden, consider what could be done to maintain the integrity of the program. Perhaps a control needs to be modified,

but that action results in a significant increase to IP risk. The program should evaluate how the IP rate can be maintained while reducing burden. This is addressed in Step 3: Reduce and Fortify.

If the increase in estimated IP rate resulting from the removal cannot be offset, and is outside of the identified tolerance, and the program still feels that the benefits of removal outweigh the drawbacks, then it is likely that the program did not appropriately identify the tolerable rate when initially considering the various inputs. As a result, the program should reconsider their risk appetite and risk tolerance.

6.4.3   Step 3: Reduce and Fortify

Once a burden reduction is either (A) determined to have minimal impact on the IP rate or (B) able to be compensated for with additional internal controls, a program should begin step 3 – reduce and fortify. At the end of this step, the program will have reduced the burden on the recipient and fortified the payment process to account for any increased IP risk.

In evaluating the options available to reduce burden, programs should consider the cost of such reductions. If they do not have sufficient available budget to reduce burden effectively, they may consider requesting additional appropriations, with the impact to equity as justification.

Reduce the Burden

Once the burden has been identified and assessed to segment into reasonable and unreasonable burdens, the unreasonable portion should be reduced. Burden reduction can take several distinct forms, so as long as the time, effort, or financial resources required to generate, maintain, or provide information for a collection are reduced. Here are a few ways that burden can be reduced:

Reduction Type	Example
Shift: Alter the payment process so the burden on a recipient is moved to the government.	Data sharing
Remove: If the burden isn't necessary, remove it entirely.	Automation
Combine: Does combining multiple requirements into one step make the process more efficient? Combine the burdens.	States' one-stop shop for benefits; relying on tax forms for proof of income
Revamp: Is the burdensome step difficult to understand or fulfill? Revamp it to be more user friendly.	Digitization
Accommodate: Is the burden the result of access issues? Find ways to accommodate those users with alternative burdens.	Use of credit reports versus alternative sources of credit information[127]

Table 20 - Burden Reduction Methods

A program could **shift the burden** to the government. For example, perhaps an applicant is asked to verify their income, number of dependents, etc. The program might ask, "is there a way that this information could be found independently, using private or public databases?" If so, then the burden

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[127] Office of the Comptroller of the Currency, *Federal Regulators Issue Joint Statement on the Use of Alternative Data in Credit Underwriting,* (December 3, 2019), https://www.occ.treas.gov/news-issuances/news-releases/2019/nr-ia-2019-142.html

could be shifted so that the government is now responsible for collecting that information. Another example applies to location and residence data. Instead of requiring the applicant to provide this information, the program could utilize IP address distance, to determine whether claims are being submitted from suspicious locations, or if the IP address aligns with the expected location.

Additionally, there may be some opportunities to reduce burden to applicant that may not involve reduction of controls at all. We're calling this type: accommodate. For example, the digital divide in America makes it significantly more challenging for individuals without consistent access to a phone or computer. Whether it's an inability to access a digital only form, or receive emails or texts, there are a variety of ways that programs could reduce these burdens. Making guide forms accessible and providing ways for applicants to submit information via mail or in person could help to make benefits programs more accessible. During the identification step programs should ask, is this accessible to all potential applicants? Are options offered for the vision-impaired? Those without access to internet? Those without bank accounts? Asking these questions, and brainstorming methods to address the gaps in access are necessary when improving the equity of benefits programs.

Fortify Payment Integrity

Once burden has been identified, assessed, and reduced, programs should simultaneously fortify the program's payment processes to prevent any significant increase in IPs.

There are ways in which controls can be eliminated for the individual, and moved 'behind the curtain', in the sense that the checks and controls are being completed without any additional effort on behalf of the applicant. Examples of this include process automation, such as checking the bank account information provided by an applicant to a direct payment program and making sure that it is not duplicated in another application for the same benefits. Such a duplication could provide early warning signs for a potential IP, without imposing burden on the individual.

Mitigating fraud risk presents one example where programs can reduce general burdens on applicants while flagging and targeting specific applicants with indications of fraud.[128] Many fraud prevention activities can be automated and strengthened by the wide availability of public and private datasets against which to validate applicant information. Prepayment activities which could be implemented to reduce fraud and assist in the maintenance of the PI baseline include:

1. Analysis of submission metadata to identify clusters of suspicious activity.
2. Verification that applications do not contain information associated with known data breaches or cybercrime.
3. Analysis of the IP address associated with the application, to ensure that it aligns with expectations.
4. Identification of bank accounts that may be associated with fraudulent activity.
5. Flagging applications which may require further investigation due to indicators of fraud.

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[128] For example, in Medicare and Medicaid, the agency may target specific providers that are prone to submit insufficient medical documentation while reducing burdens generally. See also generally approaches to use data analytics to balance customer experience and fraud detection: https://www2.deloitte.com/content/dam/Deloitte/us/Documents/deloitte-analytics/us-da-tippingthetriangle-020614.pdf.

These activities all allow for the filtering out of fraudulent applications without significant burden to the applicant. In situations where perhaps burden is necessary due to indicators of fraud, the program can seek additional information. This process of flagging potentially fraudulent applications for follow up allows a program to avoid imposing burden on the entire population of beneficiaries, but to a smaller portion only in cases where other alternatives have been exhausted.

7 NEXT STEPS

The tolerable rate methodology to evaluate the programs' improper payment rate may yield several different outcomes. A program may determine that it lacks the legal, structural, or budgetary authority to implement cost-effective mitigation strategies against improper payments and their root causes. Programs may also identify legal, structural, or budgetary restrictions against mitigation efforts that limit the programs' ability to prevent all or a portion of their improper payments. Likewise, programs may identify no cost-effective mitigation strategies to implement, so the agency may decide that any related improper payments is part of a tolerable rate.

If the agency identifies some or all of its improper payments should become part of a tolerable rate, the agency may consider these actions:

1. Focus internal and external stakeholders on any improper payments not covered in the tolerable rate. Agencies can direct stakeholders to focus on categories of improper payments not covered by the band of tolerable rates within its risk appetite. This methodology intends to focus conversations with stakeholders, such as outside auditors, on the rationales for accepting risks for certain improper payments that constitute the tolerable rate and on whether there are available and cost-effective mitigation strategies going forward. This methodology provides the evidence-based discussion for stakeholders to examine payment integrity decisions beyond focusing superficially on the absolute numbers of improper payments or the rate of improper payments.

2. Provide a more realistic picture of an agency's improper payment rate by highlighting the parts of the rate amenable to cost-effective prevention. The agency should consider reporting a global rate as required by PIIA but voluntarily break down the rate into the tolerable rate, the improper payment rate outside the tolerable rate, the unknown payment rate, and rates for other payment categories. By highlighting the tolerable rate, agencies can direct stakeholders, including Inspector Generals, to focus on what mitigation strategies, if any, are practical or desirable for improper payments outside of the tolerable rate.

As noted earlier in this guide, the tolerable rate does not diminish an agency's vigilant efforts to maintain the rate within tolerable bands and to seek legislative or budgetary changes. In short, the tolerable rate is not an excuse to stop payment integrity efforts, but, instead, the rate serves as a mechanism to identify how to channel those efforts in a cost-effective way. Agencies also have to report these improper payments that are part of the tolerable rate in the estimated improper payment rate as required by PIIA.

As discussed in other sections, to maintain the tolerable rate, the agency must monitor its rate and its root causes. After identifying the tolerable rate, an agency need not continually conduct CBAs if the basic conditions and assumptions remain true. On the other hand, if the program encounters new risks,

such as those listed in PIIA,[129] or changes in assumptions, such as the leadership's policy priorities, the agency may decide to revisit its risk appetite, its CBAs, and its policy assessments. Moreover, the program may identify new market or government solutions that would reduce costs or free up resources that also may require an adjusted CBA. In monitoring the program's improper payment rate, the program should also evaluate and assess any spikes in the rates from year-to-year and determine if the spikes are statistical anomalies or evidence that the program faces new risks that would require a re-assessment of the program's tolerable rate.[130]

APPENDIX A – LIMITATIONS

Ideally the CBA methodology would be purely quantitative. However, upon further research, the authors have determined that this quantitative approach may not be feasible for a variety of reasons including a lack of reliable cost estimates, an inability to accurately quantify and measure uncertainty, and the burden on the staff at each agency to conduct the analyses. As a result, the authors settled on a hybrid approach, blending a rigorous qualitative analysis with quantitative analysis where practical.

It's worth considering whether the benefits outweigh the costs of conducting the CBA itself. The inputs needed to conduct a purely quantitative CBA demands highly complex analysis, and in some cases, requires agencies to provide data that is not currently being collected. The burden on staff to conduct this type of analysis at such a granular level would likely not produce more insightful results than a hybrid approach to the CBA. Most CBAs currently conducted on regulations are currently done so at a much higher, macroeconomic level, while the approach being discussed here would be at a sub-microeconomic level. The analysis is considering not just the actions of an individual agency, but it is considering the impact of each individual action within a program, within an agency. Additionally, some of the changes required may potentially impose additional burden[131] on the individuals who may be applying for programs administered by the Federal government. This too should be considered as social cost to the mitigation strategy and incorporated into any analysis. Agencies should instead be encouraged to develop quantitative estimates to the best of their ability, when practical,[132] but not be asked to commit an unreasonable amount of resources towards developing cost estimates that may ultimately be of little utility to determine if the IP rate is tolerable.

While the hybrid approach will provide agencies the most insightful results given the limits on agency data and resources, the hybrid CBA approach also has limitations as described in the next section. The discussion of limitations provides transparency into the model, but we still consider the approach the best approach to answer the important questions addressed in this guide given the alternatives. At the

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[129] *Payment Integrity Information Act of 2019* (2019) § 3352(a)(3)(B), https://www.congress.gov/bill/116th-congress/senate-bill/375/text

[130] To test whether a spike is a statistical anomaly, the program may decide to expand the statistical sample of payments the following year in order to avoid an outsized effect from a single, large, and anomalous improper payment.

[131] Estimating Burden | A Guide to the Paperwork Reduction Act (digital.gov)

[132] "GAO-20-195G, Cost Estimating and Assessment Guide: Best Practice by Developing and Managing Program Cost" Page 9

very least, this guide establishes a defensible and usable framework to analyze questions where none existed before.

Limitations of Section 4 – Root Causes Within an Agency's Control

Each of the first three steps in the CBA methodology for assessing IPs which are impractical or undesirable to mitigate carry limitations, detailed below:

Step 1: Determining whether to conduct a CBA requires subjectivity in several parts, including:

- What constitutes a "stable" IP estimate; and
- What constitutes "practical" mitigations to be exhausted.

The framework provides suggestions for addressing such subjectivity, including basing stability on whether the three years' worth of improper payment rate estimates are within one standard deviation of the average and requiring explanations of why unused mitigations are ineffective or do not address the root cause. However, because elements of step 1 require the agency's discretion, agencies should take care to establish defensible definitions and processes for ascertaining these steps.

Step 2: The quantitative CBA cannot be considered inclusive of all possible costs and benefits. In particular, the CBA does not:

- Weigh qualitative costs and benefits of the program;
- Provide a specific estimate of Corrective Action Plan efficacy;
- Provide more specific details on the various costs; and
- Provide value judgments.

While Corrective Action Plans carry qualitative benefits and costs, the quantitative CBA focuses only on those benefits and costs that can be quantified. The qualitative framework aims to address what the CBA cannot, providing a process to make the judging of potential Corrective Action Plans more holistic. Further, the CBA does not provide a means or criteria for agencies to estimate how much or in what time frame their Corrective Action Plan will reduce overpayments; agencies' discretion in estimating efficacy is also vital to the framework.[133] Additionally, the broadness of the CBA, designed to apply to all programs, by necessity limits the specificity in which it can estimate costs. Different agencies will, of course, have different fixed, variable, administrative, and opportunity costs. They may be calculated in different ways. The CBA does not offer many specific details on what costs might be beyond paperwork burdens. As such, agencies will again have to apply discretion in identifying those costs they expect in each year, including how they will calculate opportunity costs.

Step 3: As with the determination of whether to conduct a CBA, the qualitative framework requires subjectivity in several areas, including:

- Which factors to consider; and
- How much of an impact is acceptable.

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[133] Agencies are unlikely to be able to specifically determine the efficacy of a Corrective Action Plan due to inherent challenges in isolating cause-and-effect relationships between changes to the IP rate and implementation of new Corrective Action Plans.

The qualitative framework provides several options of factors to consider but is not comprehensive. As with the CBA, it is by design general enough to apply to many agencies and therefore cannot be comprehensive for any specific agency, as all agencies have different factors they will need to consider. Agency discretion will be needed to compile a complete list of factors to consider.

APPENDIX B – ACRONYMS

Term	Definition
AA	Alternative Analysis
BPR	Business Process Reengineering
CBA	Cost-Benefit Analysis
CCDF	Child Care and Development Fund
ERM	Enterprise Risk Management
FAR	Federal Acquisition Registry
FECA	Federal Employees Compensation Act
GAO	Government Accountability Office
GDP	Gross Domestic Product
HHS	Department of Health and Human Services
IP	Improper Payment
NPV	Net Present Value
OCC	Office of Child Care
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OWCP	Office of Workers Compensation Programs
PI	Payment Integrity
PIIA	Payment Integrity Information Act of 2019
PRA	Paperwork Reduction Act
SNAP	Supplemental Nutrition Assistance Program
SSA	Social Security Administration
UP	Unknown Payment
UX	User Experience
VA	Department of Veterans Affairs

Table 21 - Table of Acronyms