

HOUSE COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM
STATEMENT OF DEBRA CAMMER HINES
VICE PRESIDENT, PUBLIC SECTOR CONSULTING SERVICES LEADER
IBM CORPORATION

February 17, 2011

Mr. Chairman, Ranking Member Cummings, and Members of the Committee, thank you for inviting me to appear before you today to discuss how the IBM Corporation believes that Federal agencies can improve their efficiency and reduce costs through the application of commercial best practices. IBM believes that Federal agencies have an unrealized opportunity to reduce improper payments and improve performance.

I am the Public Sector Consulting Leader for IBM in North America, and in that role I oversee all of IBM's public sector consulting activities at the federal, state and local level, as well as for our education and health care clients. Prior to becoming a management consultant, I worked as a Federal Credit Policy Analyst at the Office of Management and Budget. In this role I performed budgetary, credit, economic and policy analysis in the review of credit programs across the Federal government.

As you know, IBM has been a technology and services provider to commercial and government customers around the world, including significant support for US Federal agencies, almost since the founding of our company nearly a century ago, and I am honored to be here to offer you IBM's perspective on the issues that are being discussed here today.

We believe that in the current debate on fiscal policy not enough attention is being paid to cost reduction and improved revenue performance that can be achieved by simply being "smarter" about how Federal programs are designed and executed.

An IBM report entitled "Strategies to Cut Costs and Improve Performance" describes seven specific initiatives where technology-enabled productivity solutions can make a material difference in the performance of Federal programs, based on the experience of real cost savings and efficiencies achieved by IBM and other major firms have brought forward.

These seven initiatives include:

1. Consolidate Information Technology Infrastructure
2. Streamline Government Supply Chains
3. Reduce Energy Use
4. Move to Shared Services for Mission-Support Activities
5. Apply Advanced Business Analytics to Reduce Improper Payments
6. Reduce Field Operations Footprint and Move to Electronic Self-Service
7. Monetize the government's assets

The IBM report estimated that the aggressive implementation of these seven initiatives can generate \$1 trillion in savings over 10 years. These savings would be generated through improved performance rather than through program reductions or tax increases. For this reason, we believe that these ideas – and others like them – should be given higher priority in discussions around how the Federal government can improve its fiscal condition.

For the purposes of this hearing, and in light of the specific purview of this Committee, we would like to focus the balance of this testimony on how Federal agencies can reduce improper payments and improve the performance of their operations through the application of analytical tools that are proven and in use today both in the public and private sectors.

The Use of Business Analytics to Improve Performance

Federal agencies – and state and local governments for that matter – spend a great deal of energy collecting and disbursing funds. They collect taxes and fees from citizens and businesses, and they disperse funds to organizations and individuals through a wide variety of programs. These activities generate large volumes of transactions, and as a consequence, they are vulnerable to both honest mistakes in administration as well as to intentional efforts to defraud.

In November of 2010 OMB issued its latest estimate of the rate of improper payments made by Federal agencies in FY2010. Despite a slight improvement in the improper payment rate – the rate dropped from 5.65 to 5.49 – the overall annual cost of improper payments to the Federal government increased from \$110 billion to \$125 billion. Last year Medicare estimated that 7.8 percent of the \$308 billion it spent in fiscal 2009 was improper. The U.S. Department of Labor estimated that it made \$3 billion in improper payments that same year. The Administration has made the reduction of improper payments a priority and has in fact set a target of reducing the cost of those payments by \$50 billion by September of 2012.

The good news for governments at all levels is that these types of programs lend themselves to what we call “predictive analytics”. To put it simply, predictive analytics is a collection of statistical techniques that when applied to a large number of transactions being processed through a standard business process can reveal patterns that indicate fraud, abuse or simply poor management. Many of you have seen the “predictive analytics” displayed this week during the IBM Watson-Jeopardy Challenge.

Several Federal agencies are begging to apply predictive analytics today, most notably the Internal Revenue Service and the Department of Health and Human Services. However, we believe that deeper investment in these techniques and the broader application of the lessons that have been learned in other public sector settings can improve the performance of these efforts and yield significant new savings.

Reducing Improper Tax Refunds in New York State

For example, IBM was hired by the State of New York after the State’s tax department estimated it was losing \$1 billion annually in improper tax refunds. IBM built a predictive model that scores every refund request on the likelihood it was valid -- the 4 percent of returns deemed the most questionable were rejected outright. Investigators examined others considered high risk to decide whether or not they were valid.

Over the last six years, the state has denied \$1.2 billion in improper refunds even taking into account successful appeals. Today, the state continues to run the program on its own.

William Comiskey, deputy commissioner in the state's Office of Tax Enforcement, said the key to the program is its ability to rapidly evaluate refund requests while the money is still in hand -- meaning the office doesn't have to try to recoup payments made based on improper claims. "It's something that every state should have," he said. "It's a true government success story."

Reducing Medicaid Fraud in North Carolina

In 2010 the State of North Carolina launched a new effort to reduce Medicaid fraud by tracking down abuses by patients and health care providers in the state. IBM was hired to apply its predictive analytics tools to comb through the records of the two million North Carolinians who are insured through the health program and their 60,000 health care providers.

"It is pretty evident to us that we have to do more to root out the waste and crack down on the people that we know are out there who are abusing the system," Governor Perdue said at a news conference.

The governor said the project with IBM would be combined with other efforts including a new legislative proposal to toughen the laws against kickbacks to health care providers, a publicity campaign to get people to report fraud, and efforts to get funding for more anti-fraud investigators.

Improving Performance in the Delivery of Social Services in Alameda County

Facing a mounting deficit, budget cuts and an increase in requests for assistance, California's Alameda County Social Services turned to IBM Analytics to help them do more with less. With more than 250,000 clients and over a dozen disparate IT systems spanning twelve government departments, the agency was trapped under a mountain of data that held the answers they needed, but took days to access. IBM analytics produced a first-of-its-kind, integrated reporting system that provides caseworkers with a consolidated view of all benefits and activities related to a client in one place. The result? Alameda County saved \$11 million in tax payer dollars and is helping their clients get back up on their feet faster.

The savings is a result of the identification of fraud, elimination of duplicate work and the ability to spot gaps in services or problems before they happen. For example, fraud detection and validation work that was previously taking 4-6 months is now happening in a matter of minutes, helping the County direct funding and resources to where they are needed the most.

Overall, we estimate that, based on the scale of their current activities and applying realistic, achievable assumptions about the potential effects of these changes Federal agencies could save up to \$200 billion by applying advanced analytics technology to reduce improper payments in federal grants, food stamps, Medicare reimbursements, tax refunds and other programs. Analytics can transform these kinds of programs, making them more adaptive, responsive and even predictive based on the changing needs of citizens.

Conclusion

It is important to note that many federal agencies are focused on these issues and are making important strides. OMB, for example, should be applauded for working in partnership with the States, federal agencies and others to identify innovative ways to reduce improper payments, improve administrative efficiency, enhance service delivery, and reduce access barriers to federally-funded, state-administered benefit programs. OMB has also identified significant steps as part of the recent 25-point Plan for IT Reform announced by Chief Performance Officer Jeffrey Zients and Chief Technology Officer Vivek Kundra, which can lead to additional savings in IT delivery. More can and should be done – we applaud this Committee’s focus on identifying and supporting initiatives that can further reduce costs and improve performance.

As members of this Committee and your colleagues elsewhere in Congress focus on options to eliminate wasteful programs and spending, we hope that you will also focus on ways to improve the efficiency of federal operations. IBM underwent its own transformation in the 1990s, and the lesson from our experience is that large organizations can be turned around. However, they need committed leadership armed to carry out the right plan. We believe that if the federal government aggressively sought out and implemented the best practices now being deployed by commercial organizations in this country and around the world, it could significantly improve its finances and reduce its reliance on program cuts and tax increases to solve its fiscal challenges.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions you or other Members of the Committee may have.

Debra Cammer Hines, an IBM Vice President, she leads IBM's Public Sector Consulting Business. In her role, she leads an organization of 2200 management consultants providing consulting services (financial management, strategy & change, human capital management, supply chain management, customer relationship management and business analytics and optimization) across the Federal government, as well as the State & Local government, healthcare, and education industries. Debra was one of the authors of *Managing Public Dollars: New Rules, New Roles, New Opportunities for Federal Financial Managers*. In 2007, Debra was named one of the Top 25 Consultants by Consulting Magazine. She is a recipient of a 2009 University of Maryland alumni award for her professional achievements and humanitarian efforts.

Cammer Hines has spent her entire career in the Public Sector. During her career, Debra has directed large, integrated project teams to deliver a wide range of solutions, including ABC, process improvement, cost management, financial management, and program assessment and improvement.

Prior to joining IBM, Debra worked as a Federal Credit Policy Analyst at the Office of Management and Budget. In this role she performed budgetary, credit, economic and policy analysis in the review of credit programs across the government. She co-authored the *Underwriting Credit and Insurance Chapter* in the Budget of the United States. Debra has presented numerous training sessions for Federal agency and OMB staff on the principles of the Federal Credit Reform Act of 1990 and OMB's financial model. Debra was a member of the 1992 KPMG GPAC team and also was a consultant on the performance audits for the Commonwealth of Kentucky and Prince Georges County, Maryland.

She graduated with a bachelor of science and a Masters in Public Financial Management both from the University of Maryland.

Committee on Government Oversight and Reform
Witness Disclosure Requirement – “Truth in Testimony”
Required by House Rule XI, Clause 2(g)(5)

Name: Debra Crammer Hines

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

None

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

Vice President, Public Sector Consulting Business

3. Please list any federal grants or contracts (including subgrants and subcontracts) received since October 1, 2008 by the entity(ies) you listed above. Include the source and amount of each grant or contract.

IBM is a vendor – competing for information technology business – across the Federal Government, including the Legislative, Executive and Judicial branches, as well as independent establishments and government corporations. Our contracts are numerous and vary at any given time. The contracts were principally for IT- related services and in total, represented less than two percent of IBM’s 2010 revenue.

I certify that the above information is true and correct.
Signature

Date: February 15, 2011
