



## Testimony

Before the Subcommittee on  
Government Operations, Committee on  
Oversight and Government Reform,  
House of Representatives

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# IMPROPER PAYMENTS

## Government-Wide Estimates and Reduction Strategies

Statement of Beryl H. Davis, Director  
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# GAO Highlights

Highlights of [GAO-14-737T](#), a testimony before the Subcommittee on Government Operations, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

Over the past decade, GAO has issued numerous reports and testimonies highlighting improper payment issues across the federal government as well as at specific agencies. The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Improvement Act of 2012, requires federal executive branch agencies to (1) review all programs and activities, (2) identify those that may be susceptible to significant improper payments, (3) estimate the annual amount of improper payments for those programs and activities, (4) implement actions to reduce improper payments and set reduction targets, and (5) report on the results of addressing the foregoing requirements. In general, reported improper payment estimates include payments that should not have been made, were made in the incorrect amount, or were not supported by sufficient documentation.

This testimony addresses (1) federal agencies' reported estimates of improper payments, (2) remaining challenges in meeting current requirements to estimate and report improper payments, and (3) strategies for reducing improper payments. This testimony is primarily based on GAO's fiscal year 2013 audit of the *Financial Report of the United States Government* and prior GAO reports related to improper payments issued over the past 3 years. The testimony also includes improper payment information recently presented in federal agencies' fiscal year 2013 financial reports.

View [GAO-14-737T](#). For more information, contact Beryl H. Davis at (202) 512-2623 or [davisbh@gao.gov](mailto:davisbh@gao.gov).

July 9, 2014

## IMPROPER PAYMENTS

### Government-Wide Estimates and Reduction Strategies

#### What GAO Found

Federal agencies reported an estimated \$105.8 billion in improper payments in fiscal year 2013, a decrease from the prior year revised estimate of \$107.1 billion. The fiscal year 2013 estimate was attributable to 84 programs spread among 18 agencies. The specific programs included in the government-wide estimate may change from year to year. For example, with Office of Management and Budget (OMB) approval, an agency can obtain relief from estimating improper payments if the agency has reported improper payments under a certain threshold for at least 2 consecutive years. A net of 10 additional programs were added to the government-wide estimate by OMB in fiscal year 2013 when compared to fiscal year 2012.

For fiscal year 2013, GAO identified the federal government's inability to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them as a material weakness in internal control. In addition, existing internal control weaknesses at the agency level continued to increase the risk of improper payments occurring. In fiscal year 2013, four agencies did not report estimates for four risk-susceptible programs, including the Department of Health and Human Services' (HHS) Temporary Assistance for Needy Families (TANF) program. HHS cited a statutory barrier that prevents it from requiring states to estimate improper payments for TANF. Estimates reported for two programs were also not included in the government-wide total because their estimation methodologies were not approved by OMB. Further, inspectors general reported deficiencies related to compliance with criteria listed in the Improper Payments Elimination and Recovery Act of 2010 for fiscal year 2013, such as the use of estimation methodologies that were not statistically valid.

As GAO has previously found, a number of strategies across government, some of which are currently under way, could help to reduce improper payments. For example

- Analysis of the root causes of improper payments can help agencies target effective corrective actions. Some agencies reported root causes of improper payments using three error categories required by OMB (documentation and administrative, authentication and medical necessity, and verification). However, because the three categories are general, more detailed analysis to understand the root causes could help agencies identify and implement more effective corrective actions.
- Designing and implementing strong preventive controls can help defend against improper payments, increasing public confidence and avoiding the difficult "pay and chase" aspects of recovering improper payments. Preventive controls involve activities such as up-front validation of eligibility through data sharing, predictive analytic tests, and training programs.
- Implementing effective detection techniques to quickly identify and recover improper payments after they have been made is also important to a successful reduction strategy. Detection activities include data mining and recovery audits. Another area for further exploration is the broader use of incentives to encourage and support states in efforts to implement effective preventive and detective controls in state-administered programs.

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Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee:

Thank you for the opportunity to be here today to discuss the issue of improper payments in federal programs and activities, including efforts by federal agencies to identify and reduce improper payments.<sup>1</sup> As the steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees spend hundreds of billions of taxpayer dollars annually, including safeguarding those expenditures against improper payments and establishing mechanisms to recover those funds when overpayments occur. It is important to note that reported improper payment estimates may or may not represent a loss to the government. For example, errors consisting of insufficient or lack of documentation for a payment are included in the improper payment estimates. Over the past decade, we have issued numerous reports and testimonies highlighting improper payment issues across the federal government as well as at specific agencies.<sup>2</sup>

My testimony today will focus on

- federal agencies' reported estimates of improper payments,
- remaining challenges in meeting current requirements to estimate and report improper payments, and
- strategies for reducing improper payments.

In preparing this statement, we primarily drew upon our February 2014 report on the fiscal year 2013 audit of the *Financial Report of the United States Government*,<sup>3</sup> as well as our other products dealing with improper

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<sup>1</sup>An improper payment is defined by statute as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. Office of Management and Budget guidance also instructs agencies to report as improper payments any payments for which insufficient or no documentation was found.

<sup>2</sup>See the Related GAO Products list at the end of this statement for a selection of the products related to these issues.

<sup>3</sup>GAO, *Financial Audit: U.S. Government's Fiscal Years 2013 and 2012 Consolidated Financial Statements*, [GAO-14-319R](#) (Washington, D.C.: Feb. 27, 2014).

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payments issued over the last 3 years. We are also including improper payment information recently presented in federal agencies' fiscal year 2013 performance and accountability reports (PAR) and agency financial reports (AFR).<sup>4</sup> The GAO reports cited in this statement each provide detailed information on our scope and methodology. The work we performed upon which this statement is based was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

The Improper Payments Information Act of 2002 (IPIA)—as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)<sup>5</sup>—requires federal executive branch agencies to (1) review all programs and activities, (2) identify those that may be susceptible to significant improper payments,<sup>6</sup> (3) estimate the annual amount of improper payments for those programs and activities, (4) implement actions to reduce improper payments and set reduction targets, and (5) report on the results of addressing the foregoing requirements. IPERA also established a requirement for agency inspectors general (IG) to report annually on agencies' compliance with criteria listed in IPERA. Under Office of Management and Budget (OMB) implementing guidance, these reports should be completed within 120

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<sup>4</sup>An AFR is a report on an agency's end of fiscal year financial position that includes, but is not limited to, financial statements, notes on the financial statements, and a report of the independent auditors. A PAR is an AFR combined with an annual performance report, which includes information on an agency's efforts to achieve goals during the past fiscal year.

<sup>5</sup>IPIA, Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002), *as amended by* IPERA, Pub. L. No. 111-204, 124 Stat. 2224 (July 22, 2010), *and* IPERIA, Pub. L. No. 112-248, 126 Stat. 2390 (Jan. 10, 2013), *and codified as amended at* 31 U.S.C. § 3321 note.

<sup>6</sup>For fiscal year 2014 and beyond, "significant improper payments" is defined as gross annual improper payments in the program exceeding (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments during the fiscal year reported or (2) \$100 million (regardless of the improper payment error rate).

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days of the publication of the federal agencies' annual PARs or AFRs.<sup>7</sup> IPERIA also enacted into law a Do Not Pay (DNP) initiative, elements of which were already being developed under executive branch authority. DNP is a web-based, centralized data-matching service that allows agencies to review multiple databases to determine a recipient's award or payment eligibility prior to making payments. In addition to the laws and guidance noted above, the Disaster Relief Appropriations Act of 2013 requires that all funding received under the act be deemed susceptible to significant improper payments and consequently requires agencies to estimate improper payments, implement corrective actions, and report on their results for these funds.<sup>8</sup>

OMB continues to play a key role in the oversight of government-wide improper payments. OMB has set a goal of reaching a government-wide improper payment error rate of 3 percent or less by the end of fiscal year 2016. Further, OMB has established guidance for federal agencies on reporting, reducing, and recovering improper payments as required by IPIA and IPERA and on protecting privacy while reducing improper payments with the DNP initiative.<sup>9</sup> IPERIA requires that OMB issue guidance to agencies for improving estimates of improper payments. OMB has reported that it plans to revise its guidance related to improper payments.

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<sup>7</sup>Generally, agencies are required to issue their PARs or AFRs by November 15. Fiscal year 2013 marked the third year for which IGs were required to issue an annual report on agencies' compliance with criteria listed in IPERA.

<sup>8</sup>Pub. L. No. 113-2, div. A, § 904(b) 127 Stat. 4 (Jan. 29, 2013).

<sup>9</sup>Office of Management and Budget, Revised, *Financial Reporting Requirements*, OMB Circular No. A-136 (Oct. 21, 2013); *Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative*, OMB Memorandum M-13-20 (Washington, D.C.: Aug. 16, 2013); *Issuance of Revised Parts I and II to Appendix C of OMB Circular A-123*, OMB Memorandum M-11-16 (Washington, D.C.: Apr. 14, 2011); *Increasing Efforts to Recapture Improper Payments by Intensifying and Expanding Payment Recapture Audits*, OMB Memorandum M-11-04 (Washington, D.C.: Nov. 16, 2010); and *Issuance of Part III to OMB Circular A-123, Appendix C*, OMB Memorandum M-10-13 (Washington, D.C.: Mar. 22, 2010).

## OMB and Agencies Reported Estimates of Improper Payments

Federal agency improper payment estimates totaled \$105.8 billion in fiscal year 2013,<sup>10</sup> a decrease of \$1.3 billion from the prior year's revised estimate of \$107.1 billion.<sup>11</sup> The decrease in the fiscal year 2013 estimate is attributed primarily to a decrease in program outlays for the Department of Labor's (DOL) Unemployment Insurance program and decreases in reported error rates for fiscal year 2013 for the Department of Health and Human Services' (HHS) Medicaid and Medicare Advantage (Part C) programs. The \$105.8 billion in estimated federal improper payments reported for fiscal year 2013 was attributable to 84 programs spread among 18 agencies. Five of these 84 programs account for most of the \$105.8 billion of reported improper payments. Specifically, these five programs accounted for about \$82.9 billion or 78 percent of the total estimated improper payments agencies reported for fiscal year 2013. Table 1 lists the five programs with the highest reported improper payment estimates for fiscal year 2013.

**Table 1: Improper Payment Dollar Estimates: Five Programs with the Highest Reported Amounts in Fiscal Year 2013**

Program	Agency	Fiscal year 2013 reported improper payment estimates	
		Dollars (in billions)	Error rate (percentage of outlays)
Medicare Fee-for-Service	HHS	\$36.0	10.1
Earned Income Tax Credit	Department of the Treasury	14.5	24.0
Medicaid	HHS	14.4	5.8
Medicare Advantage (Part C)	HHS	11.8	9.5
Unemployment Insurance	DOL	6.2	9.3

Source: GAO summary of agencies' data. | [GAO-14-737T](#)

<sup>10</sup>This \$105.8 billion estimate does not include the Department of Defense's Defense Finance and Accounting Service Commercial Pay program because of concerns regarding the reliability of its improper payment estimate, which we discuss later in this statement. The government-wide improper payment estimate for fiscal year 2013 including this program is \$105.9 billion.

<sup>11</sup>In their fiscal year 2013 PARs and AFRs, three federal agencies updated their fiscal year 2012 improper payment estimates to reflect changes since issuance of their fiscal year 2012 PARs and AFRs. These updates decreased the government-wide improper payment estimate for fiscal year 2012 from \$107.7 billion to \$107.1 billion and from 4.4 percent of program outlays to 4.3 percent.

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OMB reported a government-wide improper payment error rate of 3.5 percent of program outlays in fiscal year 2013 when including the Department of Defense's (DOD) Defense Finance and Accounting Service (DFAS) Commercial Pay program,<sup>12</sup> a decrease from 3.7 percent in fiscal year 2012. When excluding the DFAS Commercial Pay program, the reported government-wide error rate was 4.0 percent of program outlays in fiscal year 2013 compared to the revised 4.3 percent reported in fiscal year 2012. In May 2013, we reported on major deficiencies in DOD's process for estimating fiscal year 2012 improper payments in the DFAS Commercial Pay program and recommended that DOD (1) develop key quality assurance procedures to ensure the completeness and accuracy of sampled populations and (2) revise its sampling procedures to meet OMB guidance and generally accepted statistical standards and produce a statistically valid error rate and dollar estimate with appropriate confidence intervals.<sup>13</sup> According to its fiscal year 2013 AFR, DOD is reevaluating its sampling methodology for fiscal year 2014 for the DFAS Commercial Pay program based on our recommendations. Consequently, the fiscal year 2013 improper payment estimate for the DFAS Commercial Pay program may not be reliable.

Additionally, in fiscal year 2013, federal agencies reported improper payment error rates for seven risk-susceptible programs—accounting for more than 50 percent of the government-wide improper payment estimate—that exceeded 10 percent. As shown in table 2, the seven programs with error rates exceeding 10 percent ranged from 10.1 percent to 25.3 percent. Under IPERA, an agency reporting an improper payment rate of 10 percent or greater for any risk-susceptible program or activity must submit a plan to Congress describing the actions that the agency will take to reduce improper payment rates below 10 percent.

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<sup>12</sup>DFAS is responsible for providing professional, financial, and accounting services to DOD and other federal agencies. It delivers mission-essential payroll, contract and vendor pay, and accounting services. For fiscal year 2013, DOD reported outlays of approximately \$353 billion for the DFAS Commercial Pay program.

<sup>13</sup>GAO, *DOD Financial Management: Significant Improvements Needed in Efforts to Address Improper Payment Requirements*, [GAO-13-227](#) (Washington, D.C.: May 13, 2013).

**Table 2: Improper Payment Error Rates: Seven Programs with Error Rates Exceeding 10 Percent in Fiscal Year 2013**

Program	Agency	Fiscal year 2013 reported improper payment estimates	
		Error rate (percentage of outlays)	Dollars (in millions)
School Breakfast	Department of Agriculture (USDA)	25.3	\$831.0
Earned Income Tax Credit	Department of the Treasury	24.0	14,500.0
Disaster Assistance Loans	Small Business Administration (SBA)	18.4	121.1
State Home Per Diem Grants	Department of Veterans Affairs	15.9	135.2
School Lunch	USDA	15.7	1,774.0
Contract Disbursements	SBA	11.6	14.1
Medicare Fee-for-Service	HHS	10.1	36,033.0

Source: GAO summary of agencies' data. | [GAO-14-737T](#)

Since the implementation of IPPIA in 2004, federal agencies have continued to identify new programs or activities as risk susceptible and to report estimated improper payment amounts. Federal agencies have also identified programs or activities that they have determined to no longer be risk susceptible and therefore did not report improper payment estimates for these programs. For example, with OMB approval an agency can obtain relief from estimating improper payments if the agency has reported improper payments under the threshold for significant improper payments at least 2 consecutive years. Consequently, the specific programs included in the government-wide improper payment estimate may change from year to year. For example, a net of 10 additional programs were added to the government-wide estimate by OMB in fiscal year 2013 when compared to fiscal year 2012.<sup>14</sup> Most notably, the Department of Education's improper payment estimate for the Direct Loan program, approximately \$1.1 billion, was included in the government-wide improper payment estimate for the first time in fiscal year 2013. We view

<sup>14</sup>This total includes DOD's DFAS Commercial Pay program.

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these agencies' efforts as a positive step toward increasing the transparency of the magnitude of improper payments.

In addition, agencies have continued efforts to recover improper payments, for example through recovery audits.<sup>15</sup> OMB reported that government-wide, agencies recovered over \$22 billion in overpayments through recovery audits and other methods in fiscal year 2013.

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## Challenges in Achieving Complete and Accurate Reporting of Improper Payments

In our fiscal year 2013 audit of the *Financial Report of the United States Government*, we reported the issue of improper payments as a material weakness in internal control because the federal government is unable to determine the full extent to which improper payments occur and reasonably assure that appropriate actions are taken to reduce them.<sup>16</sup> At the agency level, we also found that existing internal control weaknesses—such as financial system limitations and information system control weaknesses—heighten the risk of improper payments occurring.

We found that not all agencies have developed improper payment estimates for all of the programs and activities they identified as susceptible to significant improper payments. Specifically, four federal agencies did not report fiscal year 2013 estimated improper payment amounts for four risk-susceptible programs.<sup>17</sup> For example, HHS's fiscal year 2013 reporting cited statutory limitations for its state-administered Temporary Assistance for Needy Families (TANF) program,<sup>18</sup> which prohibited it from requiring states to participate in developing an improper payment estimate for the TANF program. Despite these limitations, HHS

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<sup>15</sup>According to OMB guidance, a recovery audit is a review and analysis of an agency's or program's accounting and financial records, supporting documentation, and other pertinent information supporting its payments that is specifically designed to identify overpayments.

<sup>16</sup>[GAO-14-319R](#).

<sup>17</sup>The four risk-susceptible programs that did not report a required improper payments estimate for fiscal year 2013 were HHS's Temporary Assistance for Needy Families program, the Department of Agriculture's (USDA) Loan Deficiency Payments, the Federal Communications Commission's Universal Service Fund – Lifeline program, and the National Science Foundation's Research and Related Activities and Education and Human Resources program.

<sup>18</sup>The term state-administered refers to federal programs that are managed on a day-to-day basis at the state level to carry out program objectives.

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reported that the agency has taken actions to assist states in reducing improper payments, such as providing guidance related to appropriate uses of TANF program funds. For fiscal year 2013, the TANF program reported outlays of about \$16.5 billion.

In addition, two programs that reported estimates in fiscal year 2013 were not included in the government-wide totals because their estimation methodologies were not approved by OMB. The two excluded programs were the Department of Transportation's High-Speed Intercity Passenger Rail program, with fiscal year 2013 outlays of \$2.3 billion, and the Railroad Retirement Board's Railroad Unemployment Insurance program, with fiscal year 2013 outlays of \$119.2 million.

Compliance with statutory requirements is another challenge for some federal agencies. For fiscal year 2013, two agency auditors reported on compliance issues with IPIA and IPERA as part of their 2013 financial statement audits. Specifically, auditors of the Department of Agriculture (USDA) reported noncompliance with the requirements of IPERA regarding the design of program internal controls related to improper payments. HHS auditors reported that, as previously noted, HHS did not report an improper payment estimate for its TANF program for fiscal year 2013. In addition to noncompliance reported in financial statement audits, various IGs reported deficiencies related to compliance with the criteria listed in IPERA for fiscal year 2013 at their respective federal agencies, including risk-susceptible programs that did not have reported improper payment estimates, estimation methodologies that were not statistically valid, and risk assessments that may not accurately assess the risk of improper payment.

As reported in our March 2014 update to items identified in our annual reports on fragmentation, overlap, and duplication, to determine the full extent of improper payments government-wide and to more effectively recover and reduce them, continued agency attention is needed to (1) identify programs susceptible to improper payments, (2) develop reliable improper payment estimation methodologies, (3) report on improper payments as required, and (4) implement effective corrective actions based on root cause analysis.<sup>19</sup>

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<sup>19</sup>GAO, *General Government: Governmentwide Improper Payments*, accessed June 28, 2014, [http://gao.gov/duplication/action\\_tracker/Governmentwide\\_Improper\\_Payments](http://gao.gov/duplication/action_tracker/Governmentwide_Improper_Payments).

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## Strategies to Reduce Improper Payments

As previously reported, there are a number of strategies that can help agencies in reducing improper payments, including analyzing the root causes of improper payments and implementing effective preventive and detective controls.<sup>20</sup> Designed and implemented effectively, these strategies could help advance the federal government's efforts to reduce improper payments.

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## Identifying and Analyzing Root Causes of Improper Payments

Agencies cited a number of causes for the estimated \$105.8 billion in reported improper payment estimates for fiscal year 2013, including insufficient documentation, incorrect calculations, and duplicate payments. According to OMB guidance,<sup>21</sup> agencies are required to classify the root causes of estimated improper payments into three general categories for reporting purposes: (1) documentation and administrative errors, (2) authentication and medical necessity errors, and (3) verification errors.<sup>22</sup> While some agencies reported the causes of improper payments for their respective programs in their fiscal year 2013 financial reports using these categories, a more detailed analysis beyond these general categories regarding the root causes can help agencies to identify and implement more effective preventive, detective, and corrective actions in the various programs. For example, in its fiscal year 2013 AFR, HHS reported diagnosis coding errors as a root cause of improper payments in its Medicaid program and cited corrective actions

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<sup>20</sup>GAO, *Improper Payments: Moving Forward with Governmentwide Reduction Strategies*. [GAO-12-405T](#) (Washington, D.C.: Feb. 7, 2012).

<sup>21</sup>Office of Management and Budget, *Financial Reporting Requirements*, Circular No. A-136 Revised (Oct. 21, 2013), and *Issuance of Part III to OMB Circular A-123, Appendix C*, OMB Memorandum M-10-13 (Washington, D.C.: Mar. 22, 2010).

<sup>22</sup>OMB defines these error types as: Documentation and Administrative Errors - Errors caused by the absence of supporting documentation necessary to verify the accuracy of a payment or errors caused by incorrect inputting, classifying, or processing of applications or payments by a relevant Federal agency, State agency, or third party who is not the beneficiary; Authentication and Medical Necessity Errors - Errors caused by an inability to authenticate eligibility criteria through third-party databases or other resources because no databases or other resources exist, or providing a service that was not medically necessary given the patient's condition; and Verification Errors - Errors caused by the failure or inability to verify recipient information, including earnings, income, assets, or work status, even though verifying information does exist in third-party databases or other resources (in this situation, as contrasted with "authentication" errors, the "inability" to verify may arise due to legal or other restrictions that effectively deny access to an existing database or resource), or errors due to beneficiaries failing to report correct information to an agency.

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related to provider communication and education. OMB has reported plans to develop more granular categories of improper payments in an upcoming revision to its guidance.

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## Designing and Implementing Effective Preventive Controls to Avoid Improper Payments

Implementing strong preventive controls can serve as the frontline defense against improper payments. Proactively preventing improper payments increases public confidence in the administration of benefit programs and avoids the difficulties associated with the “pay and chase” aspects of recovering overpayments.<sup>23</sup> Many agencies and programs are in the process of implementing preventive controls to avoid improper payments, including overpayments and underpayments.<sup>24</sup> Preventive controls may involve a variety of activities such as up-front validation of eligibility, predictive analytic tests, and training programs. Further, addressing program design issues that are a factor in causing improper payments is an effective preventive strategy to be considered. The following are examples of preventive strategies, some of which are currently under way.

**Up-front eligibility validation through data sharing.** Data sharing allows entities that make payments—to contractors, vendors, participants in benefit programs, and others—to compare information from different sources to help ensure that payments are appropriate. When effectively implemented, data sharing can be particularly useful in confirming initial or continuing eligibility of participants in benefit programs and in identifying improper payments that have already been made. Analyses and reporting on the extent to which agencies are participating in data-sharing activities, and additional data-sharing efforts that agencies are currently pursuing or would like to pursue can help to advance the federal government’s efforts to reduce improper payments.

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<sup>23</sup>“Pay and chase” refers to the labor-intensive and time-consuming practice of trying to recover overpayments once they have already been made rather than preventing improper payments in the first place.

<sup>24</sup>Underpayments are also included in the total improper payment estimates because, according to OMB guidance, the portion of all amounts paid improperly should be included when calculating a program’s annual improper payment amount. For example, according to the guidance, if a \$100 payment was owed, but the agency erroneously paid \$90, then \$10 should be considered an improper payment.

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One example of data sharing is agencies' use of the Do Not Pay (DNP) initiative. DNP is a web-based, centralized data-matching service that allows agencies to review multiple databases to determine a recipient's award or payment eligibility prior to making payments. IPERIA requires entities to review prepayment and preaward procedures and ensure a thorough review of available databases to determine program or award eligibility before the release of any federal funds. IPERIA lists five databases that should be included in the DNP initiative and allows for the inclusion of other databases designated by OMB in consultation with the appropriate agencies.<sup>25</sup> In August 2013, the Director of OMB issued Memorandum No. M-13-20 (M-13-20), *Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative*. As required by IPERIA, M-13-20 sets forth implementation guidance for the DNP initiative to help ensure that the federal government's efforts to reduce improper payments comply with privacy laws and policies.

**Predictive analytic technologies.** The analytic technologies used by HHS's Centers for Medicare & Medicaid Services (CMS) are examples of preventive techniques that may be useful for other programs to consider. The Small Business Jobs Act of 2010 requires CMS to use predictive modeling and other analytic techniques—known as predictive analytic technologies—both to identify and to prevent improper payments under the Medicare Fee-for-Service program.<sup>26</sup> These predictive analytic technologies are to be used to analyze and identify Medicare provider networks, billing patterns, and beneficiary utilization patterns and detect those that represent a high risk of fraudulent activity. Through such analysis, unusual or suspicious patterns or abnormalities can be identified and used to prioritize additional review of suspicious transactions before payment is made.

**Training programs for providers, staff, and beneficiaries.** Training can be a key element in any effort to prevent improper payments from occurring. This can include both training staff on how to prevent and

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<sup>25</sup>The five databases specifically listed in IPERIA are (1) Social Security Administration's Death Master File, (2) General Services Administration's Excluded Parties List System, (3) Department of the Treasury's Debt Check Database, (4) HHS IG's List of Excluded Individuals/Entities, and (5) Department of Housing and Urban Development's (HUD) Credit Alert System or Credit Alert Interactive Voice Response System. According to the DNP website, only the first four of these databases are currently available.

<sup>26</sup>Pub. L. No. 111-240, § 4241 (Sept. 27, 2010).

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detect improper payments and training providers or beneficiaries on program requirements. For example, in its fiscal year 2013 AFR, HHS reported that it has offered training through its Medicaid Integrity Institute to over 4,000 state employees and officials from fiscal years 2008 through 2013.

**Program design review and refinement.** To the extent that provider enrollment and eligibility verification problems are identified as a significant root cause in a specific program, agencies may look to establish enhanced controls in this area. For example, CMS has taken steps to strengthen standards and procedures for Medicare provider enrollment to help reduce the risk of providers intent on defrauding or abusing the program.<sup>27</sup> Further, exploring whether certain complex or inconsistent program requirements—such as eligibility criteria and requirements for provider enrollment—contribute to improper payments may lend insight to developing effective strategies for enhancing compliance and may identify opportunities for streamlining or changing eligibility or other program requirements.

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## Implementing Effective Detective Controls to Identify and Recover Overpayments

Although strong preventive controls remain the frontline defense against improper payments, effective detection techniques can help to quickly identify and recover those overpayments that do occur. Detection activities play a significant role not only in identifying improper payments but also in providing data on why these payments were made and, in turn, highlighting areas that need strengthened prevention controls. The following are examples of key detection techniques.

**Data mining.** Data mining is a computer-based control activity that analyzes diverse data for relationships that have not previously been discovered. The central repository of data commonly used to perform data mining is called a data warehouse. Data warehouses store tables of historical and current information that are logically grouped. As a tool in managing improper payments, applying data mining to a data warehouse allows an organization to efficiently query the system to identify potential improper payments, such as multiple payments for an individual invoice to an individual recipient on a certain date, or to the same address. For

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<sup>27</sup>GAO, *Medicare: Further Action Could Improve Improper Payment Prevention and Recoupment Efforts*. [GAO-14-619T](#) (Washington, D.C.: May 20, 2014).

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example, CMS has established One Program Integrity, a web-based portal intended to provide CMS staff and contractors with a single source of access to Medicare and other data needed to help detect improper payments as well as tools for analyzing those data.

**Recovery auditing.** While internal control should be maintained to help prevent improper payments, recovery auditing is used to identify and recover overpayments. IPERA requires agencies to conduct recovery audits, if cost effective, for each program or activity that expends \$1 million or more annually. In its fiscal year 2013 AFR, HHS reported that the Medicare Fee-for-Service recovery audit program identified approximately \$4.2 billion and recovered \$3.7 billion in overpayments by the end of the fiscal year. Medicare recovery audit contractors are paid a contingency fee based on both the percentage of overpayments collected and underpayments identified.

It is important to note that some agencies have reported statutory or regulatory barriers that affect their ability to pursue recovery auditing. For example, in its fiscal year 2013 AFR, USDA reported that Section 281 of the Department of Agriculture Reorganization Act of 1994 precluded the use of recovery auditing techniques because Section 281 provides that 90 days after the decision of a state, a county, or an area committee is final, no action may be taken to recover the amounts found to have been erroneously disbursed as a result of the decision unless the participant had reason to believe that the decision was erroneous.<sup>28</sup> This statute is commonly referred to as the Finality Rule, and according to USDA, it affects the Commodity Credit Corporation's ability to recover improper payments.

**Federal-state incentives.** Another area for further exploration is the broader use of incentives for states to implement effective preventive and detective controls.<sup>29</sup> Agencies have applied limited incentives and penalties for encouraging improved state administration to reduce

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<sup>28</sup>Pub. L. No. 103-354, § 281, 108 Stat. 3178, 3233 (Oct. 13, 1994), *classified, as amended, at* 7 U.S.C. § 7001.

<sup>29</sup>IPERA allows agencies to use up to 25 percent of funds recovered, net of recovery costs, under a payment recapture audit program, including providing a portion of funding to state and local governments.

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improper payments. Incentives and penalties can be helpful to create management reform and to ensure adherence to performance standards.

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Chairman Mica, Ranking Member Connolly, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you or other members of the subcommittee may have at this time.

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## GAO Contact and Staff Acknowledgments

For more information regarding this testimony, please contact Beryl H. Davis, Director, Financial Management and Assurance, at (202) 512-2623 or by e-mail at [davisbh@gao.gov](mailto:davisbh@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony included Phillip McIntyre (Assistant Director), James Healy, and Ricky A. Perry, Jr.

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## **Beryl H. (Berri) Davis**

### **Biographical Sketch**

Beryl H. “Berri” Davis is a Director of Financial Management and Assurance at the U.S. Government Accountability Office where her responsibilities include audits related to improper payments, grants management, agencies’ internal controls, and federal inspector general issues. She also serves as GAO’s representative in addressing standard setting processes and activities of the International Organization of Supreme Audit Institutions.

Before working in the federal government, Berri served as Vice President, Standards and Guidance, for the Institute of Internal Auditors. She directed activities related to the identification of emerging issues, standard setting, and the development of new guidance. Berri also served as Director of Audit Services and Management Support for the City of Orlando where she was responsible for improving all aspects of accountability over city programs. Her accomplishments include generating millions of dollars of additional revenue for the city, coordinating the development of the city’s first comprehensive strategic plan, and creating a citywide employee recognition program. In addition, Berri has several years of work experience in public accounting and the private sector, including service as CFO of the Orlando Museum of Art.

Throughout her career Berri has developed and delivered presentations on internal controls and audit methodologies and approaches. She has served as a member of several auditing and financial management councils and boards, including the Comptroller General’s Government Auditing Standards Advisory Council, the Federal Accounting Standards Advisory Board Appointments Panel, and the American Institute of CPA’s governing council. She is a Past President of the Florida Government Finance Officers Association, a Past President of the Florida Institute of CPAs and a former Chairman of the Florida Board of Accountancy.

Berri graduated with a Master’s in Business Administration – Accounting from the University of Florida and earned her Bachelor’s degree in Economics from Emory University. She holds the designations of CPA, CIA, CGFM, CGAP, CGMA, and CCSA.

In 1994 Berri was recognized by “Accounting Today” as one of the *100 Most Influential People in Accounting*. In 2000 she was named the American Institute of CPA’s *Outstanding CPA in Government*.