

**EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET**

[www.whitehouse.gov/omb](http://www.whitehouse.gov/omb)

**Testimony of Daniel I. Werfel  
Controller, Office of Management and Budget  
before the  
House Committee on Oversight and Government Reform  
Subcommittee on Government Organization, Efficiency, and Financial Management**

**April 15, 2011**

**Introduction**

Thank you Chairman Platts, Ranking Member Towns, and distinguished members of the Subcommittee, for inviting me to discuss the Federal government's current efforts for preventing, reducing, and recapturing improper payments as well as how the audit process can be improved to focus on key programmatic issues, like payment errors. A little over a month ago I spoke before the Subcommittee about the Consolidated Financial Report and Federal financial management, and appreciate the opportunity to spend more time discussing pressing issues of financial management that impact the government's bottom line.

One of the biggest sources of waste and inefficiencies within the Federal government is the amount we pay out each year in improper payments. In Fiscal Year (FY) 2010, Federal agencies estimated approximately \$125 billion in improper payments were made to individuals, organizations, and contractors. Improper payments occur when funds go to the wrong recipient, an ineligible recipient receives a payment (e.g., a deceased or incarcerated individual), the proper recipient receives the incorrect amount of funds (including overpayments and underpayments), documentation is not available to support a payment, or the recipient uses funds in an improper manner. Although not all errors are fraud (i.e., most payment errors are inadvertent) and not all errors are waste (i.e., a significant amount of error is based on missing documentation that later prove to be correct), all payment errors degrade the integrity of government programs and compromise citizens' trust in government. As a result, the President has launched an aggressive and comprehensive campaign to address improper payments, rather than accept the status quo.

As part of the Administration's Accountable Government Initiative, we have moved to cut programs that don't work, streamlined how government operates to save money and improve performance, and made government more open and responsive to the needs of the American people. Accordingly, I am pleased that we have set aggressive goals to prevent \$50 billion in improper payments, and recapture at least \$2 billion in improper payments between FY 2010 and FY 2012—a significant acceleration and increase of recoveries from the previous several years.

While the Administration has several initiatives underway to accomplish these goals, our partnership with Congress is vital to these efforts to prevent and recover improper payments. The enactment of the bipartisan Improper Payments Elimination and Recovery Act (IPERA) of 2010 was an important milestone in this partnership, providing Federal agencies with new tools to address payment errors. This week OMB released guidance to agencies for implementing IPERA. This guidance ensures that agencies are properly assessing risk in their programs, measuring and reporting improper payments for required programs, and establishing corrective action plans and reduction targets to drive agency performance. In addition, when improper payments are made, IPERA and the implementing guidance expand the agencies' authorities and requirements for getting back overpayments, one of the most significant types of improper payments.

Another critical step in addressing improper payments is the President's FY 2012 Budget, which contains a suite of mandatory and discretionary proposals that enable critical program integrity improvements in areas such as Medicare, Medicaid, Unemployment Insurance (UI), and Social Security. Common to all these proposals are taxpayer savings from the elimination of waste and error. In total, the President's proposals, if enacted, would save more than \$160 billion over 10 years.

In addition, the Affordable Care Act (ACA) of 2010 (Pub. L. 111-148 and Pub. L. 111-152) was an important milestone for improving program integrity efforts, as the new law contains numerous authorities and tools for the Department of Health and Human Services (HHS) to root out fraud and error in Medicare, Medicaid, and the Children's Health Insurance Program (CHIP) and to recapture improper payments in these programs. With the ACA's passage, we are now focused on the important work of effectively executing these new authorities in a manner that results in swift and sharp decreases in payment errors in our Federal health care programs.

The remainder of my testimony today further elaborates on our efforts to prevent and recover improper payments, as well as how government auditing processes can be improved to enhance program integrity within agency programs.

### **Improper Payments Overview**

The Federal government makes trillions of dollars in payments every year. These payments provide support to millions of retirees and disabled individuals; student loan benefits for many college-aged students; payments to contractors for services performed in the United States and abroad; and funds to States for State-administered programs like UI and the Supplemental Nutrition Assistance Program (SNAP).

The vast majority of payments made by the government are proper. This means that the payments are made in the right amount, are sent to the right recipient, and are used for the right purpose. Unfortunately, though, there are instances where the government makes payments that are improper.

Recognizing that improper payments were likely a problem that extended throughout the Federal government, Congress passed the Improper Payments Information Act of 2002 (IPIA, Pub. L. 107-300), which was recently amended by the Improper Payments Elimination and Recovery Act of 2010 (Pub. L. 111-204). Among other things, the law requires agencies to conduct risk

assessments to determine which programs are susceptible to significant improper payments, to measure and report improper payment rates and amounts for programs that are found to be susceptible to improper payments, to implement corrective actions to address the root causes of improper payments, and to establish reduction targets to drive agency efforts to reduce and prevent future improper payments.

Prior to IPIA, there was limited knowledge of the extent of government-wide improper payments. However, agencies are now identifying programs that are susceptible to making significant improper payments as well as identifying and addressing the root causes of these improper payments. In FY 2004, the first year of government-wide improper payment reporting under the IPIA, agencies measured 30 programs and reported an estimated \$45 billion in improper payments. Since then, the number of programs being measured for improper payments has more than doubled, agencies have refined their measurement methodologies and improved the identification of improper payments, and government outlays have increased. These three factors have led to increases in improper payments reported by agencies, and in FY 2010, the most recent year of reporting, agencies reported \$125 billion in improper payments. While the amount of improper payments increased, the reported government-wide improper payment rate declined from 5.65 percent in FY 2009 to 5.49 percent in FY 2010. This percentage decrease represents real progress, as the government would have made approximately \$4 billion more in improper payments had the error rate remained the same in FY 2010 as it was in FY 2009.

As noted throughout my testimony, the Administration has taken an aggressive stance to remediate the \$125 billion in estimated improper payments in FY 2010. To that end, we have several initiatives planned and under way that I would like to highlight today that aim to prevent, reduce, and recapture improper payments. While our ultimate goal is to reduce the number of improper payments the Federal government pays out, the Administration is cognizant that efforts to reduce improper payments cannot unduly burden the intended beneficiaries of program benefits and legitimate entities doing business with the Federal government. That is why we are committed to focusing on both reducing improper payments and at the same time ensuring program access for program participants.

### **Current Administration Efforts**

In addition to putting forward administrative, legislative, and funding requests in the FY 2012 President's Budget, the Administration is already taking several steps to prevent, reduce, and recapture improper payments. I would like to highlight and provide a brief description of six of these initiatives: (1) implementation of Executive Order 13520 on Reducing Improper Payments; (2) status of the "Do Not Pay List;" (3) agency efforts to recapture improper payments; (4) implementation of the Affordable Care Act (P. L. 111-148); (5) leveraging cutting edge forensic technology; and (6) status of pilots of the Partnership Fund for Program Integrity Innovation.

#### *Executive Order 13520 on Reducing Improper Payments*

In response to the large increase in improper payments between FY 2008 and FY 2009, on November 20, 2009, the President issued Executive Order 13520 on Reducing Improper

Payments.<sup>1</sup> The Executive Order aims to reduce and prevent improper payments by enhancing transparency, increasing agency accountability, and exploring incentives for State and local government efforts to reduce improper payments in State-administered programs (like UI, SNAP, and Medicaid). The Executive Order represents a fresh approach to addressing improper payments. It emphasizes the importance of detecting fraudulent claims, averting improper payments, and improving payment accuracy without making government programs harder to navigate, or restricting access to benefits for legitimate beneficiaries—such as poor families who need SNAP benefits to help put food on the table, or children who need health care and qualify for Medicaid or CHIP.

Agencies have made great strides in implementing the Executive Order. We have identified agencies with high-priority programs that account for the majority of improper payments, established supplemental measures to provide more frequent and current measurements for the majority of these high-priority programs, and selected Accountable Officials that are responsible for coordinating efforts to reduce improper payments at agencies with high-priority programs. All of this information is now readily available to the public on an improper payments dashboard.<sup>2</sup> Specifically, the dashboard, which was required by the Executive Order, includes:

- Government-wide and program-by-program data on improper payment rates, amounts and reduction targets;
- Data on the amount of contract payment errors recovered;
- The top 10 high-dollar improper payments for the most recent reporting quarter;
- The identity of the agency Senior Accountable official; and
- Agency success stories.

### *The “Do Not Pay List”*

In addition to Executive Order 13520, the Administration has taken other steps to reduce and prevent improper payments. In June 2010 the President issued a memorandum to agencies on enhancing payment accuracy through a “Do Not Pay List” (DNP).<sup>3</sup> The President’s memorandum directs that a DNP list be established, which will serve as a single source through which all agencies can check the status of a potential contractor, grantee, or individual beneficiary by linking the agency to relevant eligibility databases, such as the Social Security Administration’s Death Master File or the General Service Administration’s Excluded Parties List System.

While the initial portal has been built, the implementation of this initiative will have several components to be executed in phases such as conducting pilot tests of the portal by Federal agencies, addressing implementation issues, linking additional databases, and developing capabilities for automating checks by agency systems. The automation phase would incorporate cutting-edge fraud detection technology to further reduce the number of improper payments.

---

<sup>1</sup> Executive Order 13520 can be viewed on the White House’s website at: <http://www.whitehouse.gov/the-press-office/executive-order-reducing-improper-payments>

<sup>2</sup> The dashboard can be found at: <http://PaymentAccuracy.gov/>

<sup>3</sup> The President’s memorandum on Enhancing Payment Accuracy Through a “Do Not Pay List” can be viewed on the White House’s website at: <http://www.whitehouse.gov/the-press-office/presidential-memorandum-enhancing-payment-accuracy-through-a-do-not-pay-list>

It is important to note that the FY 2012 President's Budget includes a \$10 million request for the Department of the Treasury's Bureau of the Public Debt to create an operations center focused on using cutting-edge technology to fight waste, fraud, and abuse, and to expand the DNP portal. The new operations center and the DNP portal expansion will leverage the type of forensic technology successfully deployed by the Recovery Accountability and Transparency Board (Recovery Board) to monitor and root out fraud in Recovery Act funding. The operations center will be available to agency management and the Inspector's General community to fight waste, fraud, and abuse.

OMB is currently working with the Department of the Treasury to implement the early phases of the DNP list. Specifically, we are coordinating pilots with select Federal agencies to demonstrate the effectiveness of the DNP list solution. Based on the results of these pilots, we will incorporate pilot results to improve the portal prior to the expansion of the DNP list government-wide. We anticipate completing the pilot projects by the end of FY 2011, with full implementation of the DNP list occurring by the end of FY 2012.

We believe that the DNP portal will allow Federal agencies to utilize technology to access eligibility information in a timely and cost-effective manner and ultimately help reduce improper payments. As we work to develop and implement the DNP list, we look forward to working with Congress to ensure that agencies have access to relevant information and databases, and technological resources and systems, which can help prevent improper payments before they occur.

#### *Payment Recapture Audits*

While the Administration believes agencies must do everything possible to prevent and reduce improper payments, we also believe that when they do occur, agencies should do everything possible to recapture those that are overpayments. Therefore, on March 10, 2010, the President issued a memorandum to agencies directing them to intensify and expand their efforts to recapture improper payments.<sup>4</sup> Under the Recovery Auditing Act, agencies were required to review contract outlays if their annual awards are over \$500 million. Many agencies retain the services of contractors that use sophisticated software and tools to identify contract overpayments that could be recovered. In addition, other agencies review grant, benefit, and contract payments as part of their normal post-payment review process. Certain other programs also were authorized under other statutes to review payments under a Recovery Auditing program and to recover any improper payments identified during these reviews. Through these and other methods, agencies are reviewing their payments and recapturing any improper payments identified.

The President's memorandum of March 10, 2010, directs agencies to intensify and expand these efforts. In accordance with the memorandum, we have set a goal of recovering at least \$2 billion in improper payments between FY 2010 and FY 2012, a significant acceleration from the previous several years. I am pleased that we are making significant progress in meeting this

---

<sup>4</sup> The Presidential memorandum of March 10, 2010 can be viewed on the White House's website at: <http://www.whitehouse.gov/the-press-office/presidential-memorandum-regarding-finding-and-recapturing-improper-payments>

goal, as agencies reported in FY 2010 that they had recaptured \$687 million in improper overpayments, a nearly 300 percent increase from prior recoveries.

OMB continues to work with agencies to review payment recapture audit programs, identify best practices, and implement improvements to agency efforts to identify and recapture improper payments, and to meet the recovery goal. In addition, IPERA will also significantly expand agency efforts to recapture improper payments by lowering the threshold for conducting recovery audits and expanding their scope to payments beyond contracts.

### *The Affordable Care Act of 2010*

As you know, Federal health care programs are a major driver of government-wide improper payments, due in part to the complexity and size of their programs, and HHS' programs accounted for nearly 60 percent of government-wide improper payments in FY 2010. To address this problem, last summer the President announced an ambitious and aggressive goal to reduce improper payments in the Medicare fee-for-service program by 50 percent—from 12.4 percent to 6.2 percent—by FY 2012. In FY 2010, HHS reported that the Medicare fee-for-service program is making progress in meeting this goal, with a decrease in the program's improper payment rate to 10.5 percent. We intend to build on this success and achieve the President's goal through many of the initiatives I have already described, as well as through the provisions contained in the new health reform law.

The ACA was signed into law just over a year ago, and the White House and the Office of Management and Budget are working with Federal agencies to implement this historic legislation. While the new law contains many important provisions to extend and improve health care for millions of Americans, it also has several provisions designed to prevent and detect fraud and abuse, to identify and recover improper payments, and to penalize those who commit fraud or abuse, in Medicare, Medicaid, and CHIP.

These provisions include:

- Providing the Secretary of HHS with new authorities to increase screening of providers and suppliers before they enroll in Medicare, Medicaid, or CHIP and to conduct oversight directly after they enroll; and to implement temporary moratoria on new providers in high-risk areas to combat waste, fraud, and abuse;
- Increasing data sharing between Federal agencies – like HHS' Centers for Medicare & Medicaid Services (CMS), SSA, the Department of Defense, and the Department of Veterans Affairs – to detect and investigate potential fraud and abuse throughout Federal health programs;
- Expanding the Recovery Audit Contractor program from Medicare Parts A and B to also include Medicare Parts C and D and Medicaid; and
- Enhancing civil and criminal penalties for Federal health care fraud and false claims.

The Administration is currently working across agencies to implement these and other program integrity provisions included in the new law.

### *Leveraging Cutting Edge Forensic Technology*

I would like to highlight the government's use of technology to identify and prevent improper payments and fraud. Specifically, an increasing number of agencies are using data mining and other business intelligence tools to look across programs to identify errors that can either be prevented before they are made, or recovered if they are made.

For instance, CMS—the HHS agency that administers Medicare, Medicaid, and CHIP— is beginning to use prepayment edits to identify payments with characteristics that are outside the norm, such as duplicate payments, overpayments in general, and a large number of payments to one provider. In addition, CMS is also developing predictive analytic technologies to stop improper payments on the front end before they occur, rather than identifying and trying to recover improper payments after they are made. These predictive modeling technologies help the agency establish a profile of the type of payments that should trigger an intensified review as well as payment that should not be made. This type of predictive modeling has been used successfully by the credit card industry to identify suspicious payments, and could also potentially stop improper payments at Federal agencies. In addition, the Department of Defense (DoD) has prevented more than \$2 billion in improper payments to vendors since August 2008 through the deployment of their Business Activity Monitoring (BAM) tool. BAM is an analytical tool that assists DoD in flagging potential improper payment transactions before they are completed and the money is spent.

Lastly, the Recovery Board has deployed a cutting-edge fraud mapping tool that leverages the latest technologies in data capture and analytics to identify potential fraud and error. The Recovery Board has pioneered and refined the tool, which has been cited as one of the reasons why fraud and abuse in Recovery Act funds has been much lower than most people expected. Last summer, we announced that we are starting to roll out this innovative tool for use across government. We first piloted the tool at CMS, a natural place to start since Medicare and Medicaid combined had an estimated \$70 billion in improper payments in FY 2010— including an estimated \$48 billion in Medicare alone. In this successful pilot, CMS partnered with the Recovery Board to investigate a group of high-risk providers. By linking public data found on the Internet with other information, like fraud alerts from other payers and court records, the pilot uncovered a potentially fraudulent scheme. The data confirmed several suspect providers who were already under investigation and, through linkage analysis, identified affiliated providers who are now also under investigation.

#### *Partnership Fund for Program Integrity Innovation*

A final area that I would like to highlight is the Partnership Fund for Program Integrity Innovation. The FY 2010 Consolidated Appropriations Act (Pub.L. 111-117) allocated \$37.5 million for the Partnership Fund for Program Integrity Innovation (the Partnership Fund). The purpose of the Partnership Fund is to identify ways to improve service delivery, payment accuracy, and administrative efficiency, while also reducing access barriers to Federal assistance programs and protecting beneficiaries.

We have made significant progress since the Partnership Fund's inception. The first pilot was approved in January, providing up to \$2 million in funding for the Department of the Treasury to test how the Internal Revenue Service (IRS) might conduct data matching with states to help

reduce the unacceptable improper payment rate of roughly 25 percent in the Earned Income Tax Credit (EITC) program. The pilot will assess the potential for program data from state-administered benefits programs to help validate EITC eligibility by providing timely data on key EITC eligibility criteria, such as family composition and dependent residency, before EITC payments are actually issued. The pilot will be conducted as a simulation using IRS and state data from prior tax years. If successful, this pilot ultimately could help prevent thousands of annual improper EITC payments if enacted nationwide.

The Collaborative Forum, a self-directed group of state and other stakeholders established last fall, convenes work groups that develop promising pilot ideas into proposals that may then be considered for funding. The Collaborative Forum continues to develop a pipeline of high-return-on-investment pilot ideas that address programs with significant amounts of improper payments. Examples of the high-return-on-investment pilots under development include:

- Enabling states to better leverage the existing Treasury Offset Program to collect outstanding debt owed to government programs such as Medicaid and Temporary Assistance for Needy Families (TANF) from other government payments to the debtor individuals;
- Using banking transaction data to identify likely improper payments in the unemployment insurance programs by identifying payroll deposits; and
- Creating a regional clearinghouse of program eligibility data to facilitate uninterrupted benefits delivery during a disaster while also preventing duplicate participation in Medicaid, SNAP, and other programs across State lines.

I am very excited about this promising program and the potential improvements and savings that we expect to demonstrate in the near future.

### **Improving and Leveraging the Audit Process to Enhance Program Integrity Efforts**

As indicated above, we are taking an aggressive posture to prevent and recapture improper payments, which will ultimately improve financial management across the Federal government. As demonstrated by our current efforts for improving Federal financial management, we are continuously looking for better and more creative ways to address our financial management challenges.

I previously testified before this committee that, while audit results signal financial management success in many areas, there are critical financial management objectives not currently evaluated or addressed through standard financial statement audit activities. The recent 20-year anniversary of the Chief Financial Officers Act (CFO Act) of 1990, and the passage of IPERA, have sparked a new and important dialogue among Federal financial management stakeholders concerning the gaps in our current reporting process and how best to close them. Informed by these discussions and my experience as the day-to-day leader of Federal financial management efforts across government, I believe there are three improvements to financial reporting that represent the greatest opportunity to drive bottom-line results for taxpayers. They are:

- Improving reporting on where Federal taxpayer dollars are spent;
- Instituting stronger internal controls to mitigate government waste and error; and



- Increasing access to reliable information on the cost of agency operations.

Together, these three improvements can provide better information for Federal managers to make more informed decisions, enhance program integrity efforts, and increase agency transparency.

Most relevant to improper payments is the need to focus audit scrutiny on internal controls to mitigate error. Today, our financial statement audit results address whether the agency has the appropriate accounting in place to successfully record that a payment has occurred. However, the audit opinion often stops short of scrutinizing the integrity of that payment. This leads to a result where there is no correlation between an agency's ability to obtain a clean opinion and an agency's ability to mitigate instances of improper payments. I believe an important improvement that should be considered as we re-examine our reporting model is holding the agency accountable for reporting the various root causes and components of their payment errors, identifying those areas of error that are within the direct and immediate control of the agency to mitigate, and evaluating whether the agency has taken sufficient action to mitigate the risk associated with such errors.

I believe this proposed change to our reporting model would reinforce the Federal financial community's current focus on improving the results in this area.

## **Conclusion**

The problem of improper payments is not new, and it has likely affected Federal agencies since the founding of our country. Nonetheless, the amount of improper payments made by the Federal government has reached unprecedented high levels and must be aggressively addressed. Under this Administration, Federal agencies are renewing and improving their efforts in this area, and we have begun to see progress.

The President has made combating improper payments within the Federal government a priority. As I stated before, the Administration's Accountable Government Initiative is aiming to cut programs that don't work, streamline how government operates to save money and improve performance, and make government more open and responsive to the American people.

In addition to the six areas I highlighted throughout my testimony—including three Presidential directives on preventing improper payments and recapturing overpayments over the last year and a half—the enactment of IPERA and OMB's guidance to agencies will help us meet the President's goal of preventing \$50 billion in improper payments and recapturing \$2 billion by the end of FY 2012. The Administration has taken important steps towards achieving the President's goals, which have yielded early results, such as a decline in the Government-wide improper payment rate between FY 2009 and FY 2010.

We are proud of these early results, but we are constantly looking for additional ways to address improper payments. In order to identify and leverage additional tools that will help drive down errors, the FY 2012 President's Budget includes a number of legislative and administrative reforms on improper payments and debt collection, which collectively comprise our program integrity efforts and would result in over \$160 billion in savings to the Federal government over ten years, if enacted. Another way to address improper payments, as highlighted in my

testimony, is to improve and change the way we conduct our financial statement audits, which may help us find better and creative opportunities for enhancing program integrity and reducing improper payments.

In the months ahead, the Administration will continue to work through the Accountable Government Initiative to restore a sense of responsibility and accountability for taxpayer dollars.

Thank you again for inviting me to testify. I look forward to answering your questions.

## **Danny Werfel**

On October 13, 2009, the United States Senate confirmed Danny Werfel as the Controller of the Office of Federal Financial Management (OFFM) within the Office of Management and Budget (OMB). As Controller, he is responsible for coordinating OMB's efforts to initiate government-wide improvements in all areas of financial management, including financial reporting, improper payments, and real property management. Mr. Werfel is also responsible for coordinating the development of government-wide policy on financial accounting standards, grants management, and financial systems.

Prior to his current position, Mr. Werfel served in multiple capacities within OMB, included Deputy Controller, Chief of the Financial Integrity and Analysis Branch, Budget Examiner in the Education Branch, and Policy Analyst in the Office of Information and Regulatory Affairs. Mr. Werfel also served as a Trial Attorney in the Department of Justice's Civil Rights Division.

Mr. Werfel is a recipient of both national and local awards from the Association of Government Accountants for his contributions to Federal financial management. He was the recipient of the Presidential Rank Award for Meritorious Service in 2008. Mr. Werfel also served as a member of the Federal Accounting Standards Advisory Board from 2006 to 2009.

Mr. Werfel holds a Masters Degree in Public Policy from Duke University, a Juris Doctor from the University of North Carolina at Chapel Hill, and a Bachelors Degree in Industrial and Labor Relations from Cornell University.