EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
www.whitehouse.gov/omb

Testimony of Beth Cobert
Deputy Director for Management, Office of Management and Budget
before the
House Committee on Oversight and Government Reform
Subcommittee on Government Operations

July 9, 2014

Introduction

Thank you Chairman Mica, Ranking Member Connolly, and distinguished members of the Subcommittee, for inviting me to discuss the Federal Government's efforts to stop improper payments. I appreciate the opportunity to update the Subcommittee on this important topic.

While not all improper payments are fraudulent, and not all improper payments represent a loss to the Government—some improper payments reflect a lack of documentation or even an underpayment—the loss to the Federal Government is significant.

When the President took office in 2009, improper payment rates were on the rise, with the Fiscal Year (FY) 2009 rate coming in at 5.42 percent, the highest figure to date. We are proud to report that since 2009, the Administration, working together with the Congress, has significantly reduced improper payments. By using tools like annual Inspector General reviews, cutting edge technology, and expanding requirements for high priority programs, we have strengthened accountability and transparency - saving the American people money while improving the fiscal responsibility of Federal programs. While we are pleased with this progress, we are very much aware that we have a lot more work to do in this area.

Results

As a result of this concerted effort, the government-wide improper payment rate has dropped steadily for four consecutive years, from 5.42 percent in FY 2009 to 3.53 percent in FY 2013 when factoring in DOD commercial payments (for more details, please refer to the graph below). This reduction did not just happen by chance—it was the product of hard work done at Federal agencies, and with our partners in the Congress. Over the past year, we reduced improper payment rates in major programs across the Government, including Medicaid, Medicare Advantage (Part C), Unemployment Insurance, the Supplemental Nutrition Assistance Program (SNAP), Pell Grants, and two Social Security programs—Supplemental Security Income and Retirement, Survivors, and Disability Insurance. Furthermore, agencies recovered more than $22 billion in overpayments through payment recapture audits and other methods in FY 2013.

Government-Wide Improper Payment (IP) Rates: 2009-2013
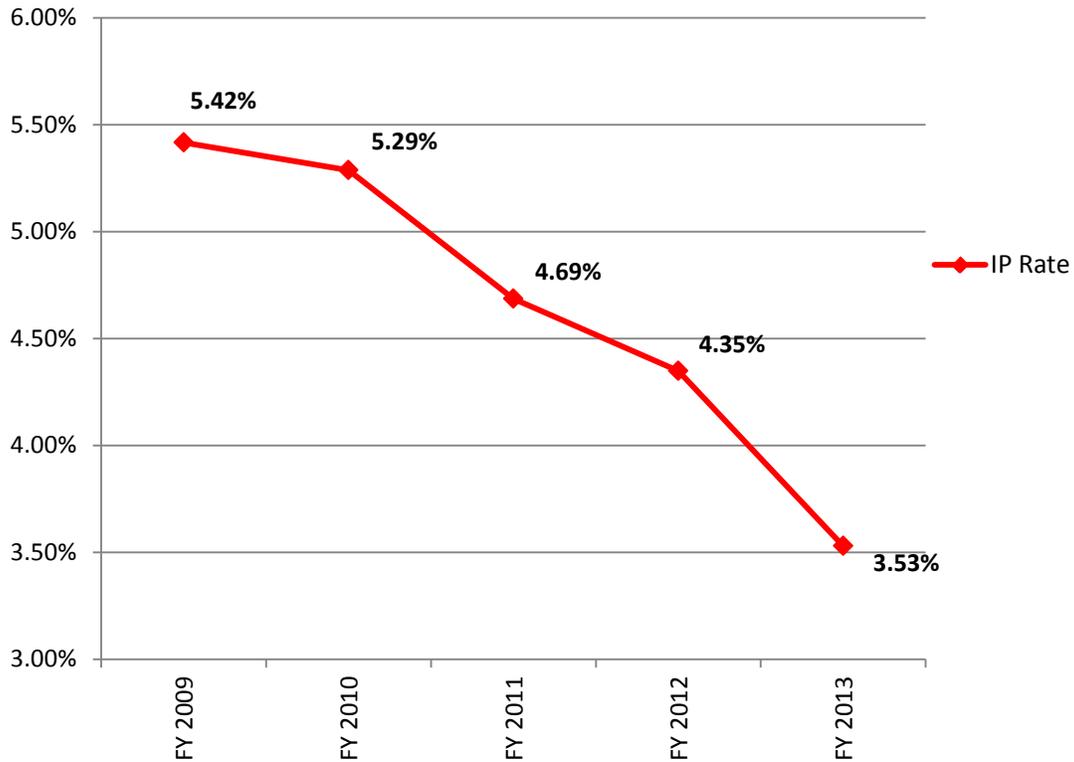
Note: The FY 2013 rate includes Department of Defense Commercial Payments, which was not included in previous years.

In programs administered at the local level, the Federal Government has been working directly with States to ensure that appropriate corrective actions are put in place to reduce improper payments. For instance, through the Medicaid Integrity Program, Federal employees specializing in program integrity provide support to States in their efforts to combat Medicaid provider waste, fraud, and abuse. In other instances, Federal agencies have implemented innovative techniques to ensure that benefit payments are accurate. For example, the Supplemental Security Income program has been integrating, over the last several years, the Access to Financial Institutions (AFI) bank verification process with its program systems. AFI is an electronic process that verifies bank account balances with financial institutions to identify excess resources and ensure that beneficiaries meet program asset thresholds.

While we are happy to see progress in reducing improper payments, however, we must also acknowledge more work needs to be done. For example, a few areas where we did not see improvements in FY 2013 were in the Medicare Part D program and the Earned income Tax Credit program. For these and other areas that are not showing improvement, we will continue to work closely with agencies to find the root causes of the improper payments and will do everything we can to find ways to do better.

Ongoing Efforts to Sustain Success

In an effort to build on our recent progress in driving down improper payments, we are working on a number of fronts. For example:

Improper Payments Guidance Overhaul

The Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) required OMB to issue implementing guidance to agencies on new requirements, which also provided us with an opportunity to update existing guidance—namely, Appendix C to OMB Circular A-123.

Our goal is not only to provide guidance to agencies on the new IPERIA requirements, but also to transform the improper payment compliance framework so that it creates a more unified, comprehensive, and less burdensome set of requirements for agencies and Inspectors General. In addition, the new guidance will provide a more detailed categorization of improper payments and a more useful taxonomy of root causes. These new categories will help agencies better present the different types of improper payments that occur within their programs and will provide more granularity on improper payment estimates—thus leading to more effective corrective actions at the program level and more focused strategies for reducing improper payments at the government-wide level.

Deep Dive on Corrective Actions

Reducing the government-wide improper payment rate heavily depends on reductions at the program level. And given the wide array of types of programs and improper payment root causes, solutions often have to be tailored. Therefore, we are conducting a careful analysis of program-specific corrective actions to identify programs with the highest return-on-investment or potential for substantially reducing improper payments. A major part of this ongoing exercise includes working closely with agencies to assess the following questions:

- Which current program-specific corrective actions are the most effective in reducing improper payments?
- Is there something that programs are not already doing—but could realistically be doing—that would lead to a significant decrease in improper payments?
- What are the barriers preventing agencies from further reducing improper payments, and what would it take to overcome those barriers?

It is also important to pinpoint and understand the reasons which programs do not consistently make progress in reducing improper payments and why (such as structural or program design reasons) and develop appropriate strategies to help those programs.

The President's FY 2015 Budget

We will continue to use the Budget to build on congressional and Administration action to reduce improper payments. For example, the President's FY 2015 Budget includes a number of program integrity proposals aimed at reducing improper payments and improving government efficiency. Specifically, the FY 2015 budget strengthens Medicare, Medicaid, and the Children's Health Insurance Program by providing tools and funding to fight fraud, waste, and abuse. The Budget proposes $403 million in additional mandatory and discretionary Health Care Fraud and Abuse Control (HCFAC) investments in FY 2015 to stay ahead of the fraud curve. Starting in FY 2016, the Budget proposes that all new HCFAC investments be mandatory and consistent with the levels for discretionary spending on HCFAC set forth in the Budget Control Act. The Budget also includes other program improvements aimed at improving efficiency and effectiveness as States expand Medicaid.

Many of these proposals will provide additional savings for the Government and taxpayers, and will support government-wide efforts to improve the management and oversight of Federal resources. There is compelling evidence that investments in administrative resources can significantly decrease the rate of improper payments and recoup many times their initial investment. For example, for every dollar spent by the Social Security Administration on a disability review, the Government saves an estimated nine dollars in avoided benefit payments. Similarly, for every new dollar spent on HCFAC program integrity efforts, the Centers for Medicare & Medicaid Services' actuaries conservatively estimate approximately a dollar and a half is saved or averted. Historically, for every dollar spent on health-care-related fraud and abuse investigations through HCFAC and other programs in the last three years, the Government recovered $8.10. This is the highest three-year average return on investment in the 17-year history of the HCFAC program. The President's FY 2015 Budget also supports the Internal Revenue Service efforts aimed at improving enforcement of current tax laws and reducing the tax gap. We will continue to identify areas—in addition to those outlined in the Budget—where we can work with the Congress to further improve agency efforts.

The Do Not Pay Initiative

Under this Administration, the Federal Government has focused on leveraging technology and sharing data to address improper payments, as exemplified by the Do Not Pay initiative. The goal of this initiative is to use data matching and predictive analytics to prevent improper payments before they occur. On January 10, 2013, the President signed into law IPERIA, which requires increased use of technology to combat improper payments. IPERIA mandated five databases to screen against. Additionally, the Congress passed and the President signed the Bipartisan Budget Act of 2013, which expanded IPERIA to contain a sixth database: the SSA Prisoner Updates Processing System (PUPS).

In order to fulfill the requirements of IPERIA and further prevent improper payments, OMB has taken a number of actions. First, we have provided the Congress a plan for agencies to integrate the required databases, and provided a plan for improving the data quality of death data maintained by SSA. Second, as of June 1, 2013, we have established an initial Do Not Pay working system to review payments that are centrally processed at Treasury. Third, we have

issued Memorandum M-13-20 on Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative. Finally, we have established the Treasury Do Not Pay System as a System of Record providing proper privacy protection and allowing "computer matching agreements" with agencies.

OMB continues to work with agencies to achieve the full intent of IPERIA by verifying proper payments pre-award, prepayment, and post payment across all six databases, as appropriate, and is preparing the first report to the Congress on the implementation of the Do Not Pay initiative. Furthermore, to help bolster Do Not Pay's value and address other key Administration goals, the President's FY 2015 Budget re-proposes to further reduce improper payments by providing the Treasury Do Not Pay system access to the SSA full Death Master File database, which includes death information received from State sources. And we look forward to working with the Congress on S.1360, the Improper Payments Agency Cooperation Enhancement Act (IPACE Act), which includes many of the Administration priorities on sharing death data to prevent improper payments.

Conclusion

I would like to close by emphasizing that stopping improper payments remains a priority for this Administration. We have taken an aggressive approach to attacking waste, fraud, and abuse within Federal agencies, and we will continue to seek out new and innovative tools to help us in this fight.

While we are proud of the progress we have made so far, we know there is much more work to be done to improve the accuracy and integrity of Federal payments. I look forward to continuing to work with this subcommittee and other committees, as well as the Government Accountability Office, the Inspectors General community, and agencies to make more strides in reducing improper payments. All of these stakeholders are our partners in this endeavor, and they play a critical role in holding the Federal Government accountable for reducing improper payments.

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

Beth Cobert, Deputy Director for Management
Office of Management and Budget

Beth Cobert is the Deputy Director for Management. She was confirmed on October 16, 2013. As Deputy Director for Management, Ms. Cobert is responsible for oversight and coordination of the Administration's procurement, financial management, e-government, performance and personnel management, and information and regulatory policies. This role encompasses oversight of how agencies devise, implement, manage, and evaluate the statutory programs and policies for which they are responsible. The Deputy Director for Management also serves as the Nation's Federal Chief Performance Officer.

Beth Cobert previously served nearly thirty years at McKinsey & Company as a Director and Senior Partner. During her tenure, she worked with corporate, not-for-profit and government entities on key strategic, operational and organizational issues across a range of sectors, including financial services, health care, legal services, real estate, telecommunications, and philanthropies. She led major projects to generate performance improvements through process streamlining, enhanced customer service, improved deployment of technology, more effective marketing programs and strengthened organizational effectiveness. Within McKinsey, Cobert held multiple leadership roles in people management including recruiting, training, development and performance management of staff. She has been a champion for professional development and initiatives to support women's advancement to leadership positions. Cobert also previously served as a board member and chair of the United Way of the Bay Area and as a member of the Stanford Graduate School of Business Advisory Council. Cobert received a bachelor's degree in economics from Princeton University and a master's degree in business administration from Stanford University. She and her husband Adam Cioth have two children.