The Buck Stops Here

How federal leaders can reduce improper payments

NOVEMBER 2018

PARTNERSHIP FOR PUBLIC SERVICE

Deloitte.

The Partnership for Public Service is a nonpartisan, nonprofit organization that works to revitalize the federal government by inspiring a new generation to serve and by transforming the way government works. The Partnership teams up with federal agencies and other stakeholders to make our government more effective and efficient. We pursue this goal by:

- Providing assistance to federal agencies to improve their management and operations, and to strengthen their leadership capacity
- Conducting outreach to college campuses and job seekers to promote public service
- Identifying and celebrating government's successes so they can be replicated across government
- Advocating for needed legislative and regulatory reforms to strengthen the civil service
- Generating research on, and effective responses to, the workforce challenges facing our federal government
- Enhancing public understanding of the valuable work civil servants perform

Deloitte provides industry-leading audit, consulting, tax and advisory services to many of the world's most admired brands, including 80 percent of the Fortune 500 and more than 6,000 private and middle market companies. Our people work across more than 20 industry sectors to deliver measurable and lasting results that help reinforce public trust in our capital markets, inspire clients to make their most challenging business decisions with confidence, and help lead the way toward a stronger economy and a healthy society. In the federal government space, more than 7,350 Deloitte professionals are dedicated to serving U.S. federal clients with wide-ranging missions. Deloitte applies a mix of private-sector insights and public-sector experience to work with federal agencies to rethink, reduce and restructure—from day-to-day operations to large-scale transformations.

To learn more, visit www.deloitte.com/us/government

INTRODUCTION

Ensuring that taxpayer money is properly spent is a critical function of the government, whether it involves getting the correct benefits to deserving veterans or preventing fraudulent payments to scammers. In 2017, improper payments totaled more than $140 billion across the government.[1] When agencies mistakenly send payments to people who are not entitled to them or pay incorrect benefit amounts—whether too much or too little—it is a sign of government ineffectiveness.

One of the 14 cross-agency priority goals in the Trump administration's management agenda is entitled "Getting Payments Right."[2] This goal seeks to reduce improper payments by identifying and addressing the root causes of funds lost to the government, clarifying reporting requirements, reducing statutory barriers that prevent reductions in improper payments and strengthening collaboration with states.[3]

Congress has long been involved with this issue and remains highly attuned to the problems, passing five laws since 2002 to help agencies prevent, detect and recover improper payments.

While the issue of improper payments has been a significant problem for years, agency leaders have a unique opportunity to capitalize on the momentum in the executive and legislative branches, and the elevated status of the issue. To bring about change, agency leaders must engage relevant stakeholders, look holistically at their processes, and use timely and accurate data to understand what is driving improper payments. This approach can move agencies away from the traditional "pay and chase" model for overpayments to one centered on prevention. Investing in prevention strategies could help reduce a decade-long trend of increased improper payments.

Earlier this year, the Partnership for Public Service and Deloitte hosted three forums to increase cross-agency collaboration and create a shared community working toward reducing improper federal payments. The key strategies highlighted in this white paper emerged as themes from these forums as well as during interviews with top officials in the improper payment arena.

1 "Payment Accuracy 2017 Dataset," *Paymentaccuracy.gov*, U.S. Department of Treasury, https://paymentaccuracy.gov/resources/ (accessed 4 Sept. 2018).
2 The White House, *President's Management Agenda*, (2018) https://www.whitehouse.gov/wp-content/uploads/2018/04/ThePresidentsManagementAgenda.pdf (accessed 4 Sept. 2018).
3 "Getting Payments Right," *Performance.gov*, General Services Administration and Office of Management and Budget, https://www.performance.gov/CAP/CAP_goal_9.html (accessed 4 Sept. 2018).

Improper Payments: Definition and Common Challenges

A common public misconception is that improper payments are funds lost to the government through fraud, but the statutory definition is much broader. An improper payment is any payment that "should not have been made or was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements."[4] Depending on the program, improper payments can be made to a beneficiary, an insurance provider, a federal grantee or any other recipient of federal funding. Agencies are required to report improper payments by using the Office of Management and Budget's 13 root cause areas listed in Table 1.[5]

In fiscal 2017, the government-wide improper payment rate was 4.5 percent of federal expenditures. Insufficient documentation to determine if a payment should have been made, inability to verify a payment was made to an eligible recipient and administrative and process errors made by state or local agencies comprised nearly 70 percent of government-wide improper payments.[6]

4 "Appendix C to OMB Circular A-123," *Office of Management and Budget*, 26 June 2018, https://www.whitehouse.gov/wp-content/uploads/2018/06/M-18-20.pdf (accessed 4 Sept. 2018).

5 "Payment Accuracy 2017 Dataset," *Paymentaccuracy.gov*, Department of Treasury, https://paymentaccuracy.gov/resources/ (accessed 4 Sept. 2018).

6 Ibid.

Agencies face many challenges in trying to reduce improper payment rates. In some cases, statutory requirements can contribute to the problem. For instance, the distribution of Supplemental Security Income benefits is required on the first of the month. However, a change in income during the month can affect the amount owed to the beneficiary, resulting in an improper payment.[7] Laws also make data-sharing across agencies difficult, which can prevent programs from accurately authenticating eligibility. In addition, eligibility data may not exist. For instance, to claim the Earned Income Tax Credit for parents not residing in the same household, the credit goes to the parent with whom the child resides the majority of the year. However, there is no data source to verify this claim, making it difficult to prevent and detect improper payments in the program.

Beyond data limitations, the complex structure of many government programs further complicates improper payments. Many programs have a federally funded, state-administered structure. If a state improperly administers the payment, it still is included in the federal improper payment rate. For instance,

7 Social Security Administration, "FY 2017 Agency Financial Report," https://www.ssa.gov/finance/2017/Payment%20Integrity.pdf (accessed 4 Sept. 2018).

Table 1: Root cause areas of improper payments in fiscal 2017

Insufficient Documentation to Determine	28.5%
Inability to Authenticate Eligibility	23.5%
Administrative or Process Errors Made by: State or Local Agency	17.8%
Administrative or Process Errors Made by: Other Party (e.g., participating lender, health care provider, or any other organization administering federal dollars)	12.1%
Administrative or Process Errors Made by: Federal Agency	7.2%
Medical Necessity	4.5%
Program Design or Structural Issue	3.8%
Failure to Verify: Financial Data	1.2%
Failure to Verify: Other Eligibility Data	0.8%
Failure to Verify: Death Data	0.2%
Failure to Verify: Excluded Party Data	0.0%
Failure to Verify: Prisoner Data	0.0%
Other Reason	0.3%

Source: "Payment Accuracy 2017 Dataset," *Paymentaccuracy.gov*, Department of the Treasury, https://paymentaccuracy.gov/resources (accessed 4 Sept. 2018).

payment errors made by state or local agencies account for more than 59 percent of Medicaid's federal improper payment rate.[8]

Despite such challenges, there are both government-wide and program-level strategies that can help reduce improper payments. Agencies can take advantage of these strategies, learn from success stories across government, and capitalize on the momentum of the cross-agency priority goal to drive change.

8 "Payment Accuracy 2017 Dataset," *Paymentaccuracy.gov*, Department of the Treasury, https://paymentaccuracy.gov/resources/ (accessed 4 Sept. 2018).

Government-Wide Strategies for Reducing Improper Payments

Because many federal programs face similar challenges regarding program integrity, there have been government-wide initiatives for reducing improper payments over the years. While agencies address improper payments at the program level, cross-agency initiatives can supplement improvement plans by offering shared goals and joint solutions.

Improper Payment Legislation

Improper payments legislation has focused on fighting fraud, waste and abuse, and has drawn strong bipartisan support. While the laws generally increase agency-reporting requirements, they also put in place a framework for agencies to understand the reasons for their improper payments and offer tools to prevent those payments.

For instance, the Improper Payments Elimination and Recovery Improvement Act of 2012 requires agencies to verify payment eligibility by checking against data housed in the Do Not Pay Business Center. The law also gives the Office of Budget and Management authority to expand the center's data sources.[9] The Fraud Reduction and Data Analytics Act of 2015 requires agencies to report on their progress implementing a fraud risk plan based on the Government Accountability Office's Fraud Reduction Framework.[10] This framework calls on agencies to give high priority to combating fraud, conduct regular risk assessments, and implement strategies to prevent and detect fraud.[11]

While Congress has given agencies tools designed to reduce improper payments, not all agencies have taken full advantage of them.

Do Not Pay Business Center

Data analysis and data-sharing are critical aspects of ensuring eligibility for government payment. In 2011, OMB established the Do Not Pay Business Center at the Department of the Treasury to provide a centralized source to aid agencies in the prevention and detection of improper payments. The Improper Payments Elimination and Recovery Improvement Act of 2012 codified the initiative, creating the Do Not Pay center. This made it a requirement for agencies to assess pre-award and pre-payment procedures and to ensure a thorough review of available databases occurs to determine program or award eligibility and prevent improper payments.[12]

To obtain access to data from other entities, agencies are required to have data sharing agreements. The business center allows agencies to streamline this process by entering into a single data-sharing agreement rather than multiple ones.

The purpose of the center is to act as a resource to agencies throughout the payment lifecycle with

9 Public Law 112-248.

10 Public Law 114-186.

11 "A Framework for Managing Fraud Risks in Federal Programs," *Government Accountability Office*, July 2015, https://www.gao.gov/assets/680/671664.pdf (accessed 21 Sept. 2018).

12 Public Law 112-248.

an emphasis on prevention. This means working with agencies to identify improper payments before distribution rather than afterward.

To this end, the center offers data matching services and customized, advanced analytics. The center acts as a repository to host data related to program eligibility from across agencies. For example, the Department of Health and Human Services hosts the List of Excluded Individuals/Entities data set which is designed to ensure that providers who bill federal health care programs do not submit claims for services furnished, ordered or prescribed by an excluded individual or entity. The Do Not Pay system allows agencies outside of HHS to cross-reference the list of excluded individuals and entities. The system flags if there is a match between the two lists, and the agency is then responsible for investigating if the payment is proper.

Besides data matching, the Do Not Pay Business Center provides customized analytic services for agencies. It has an outreach team that works with agencies to determine how best to use the database for program integrity. These services, provided to agencies at no cost, can range from counseling on how to take advantage of the existing Do Not Pay resources to running a statistical analysis to identify patterns in payment activities.

While Do Not Pay can be a great resource, it has limitations. Data sets that would disqualify an individual from receiving benefits, such as the Social Security Administration's prisoner data, are still not available to Do Not Pay, limiting its ability to flag potential improper payments.[13] And while the law requires agencies to check their payments against Do Not Pay data before distribution, according to the GAO, many agencies examine the data at the time of the payment rather than prepayment.[14]

In addition, to gain access to data sources, agencies must comply with provisions of the Computer Matching and Privacy Protection Act, a process that can take years to finalize.[15] In 2016, Congress carved out an exception by exempting inspectors general and agencies working in coordination with IGs from provisions of the computer matching law if they are working on audits, investigations and evaluations or other reviews.[16]

13 "Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System," *Government Accountability Office*, October 2016, https://www.gao.gov/assets/690/680464.pdf (accessed 4 Sept. 2018).
14 Ibid.
15 Public Law 100-503.
16 Public Law 114-317.

Success Stories: Programs Addressing Root Causes of Improper Payments

Utilizing the government-wide strategies to reduce improper payments is just one piece of the puzzle. Agencies also need to adopt solutions that address the root causes of improper payments within their programs. While many programs are federally funded and state-administered, agencies often fail to bring states into their strategies for reducing improper payments.

Partnering with states to improve program integrity

Unemployment insurance provides benefits to people who lose their jobs through no fault of their own. Unemployment benefits are financed largely by state employer taxes, with federal oversight and administration.[17] Over the years, however, the federal government has found it difficult to help states reform their unemployment compensation systems to curtail abuse.

"We needed a better way to lift up and identify, share and replicate best practices across states," Gay Gilbert, the administrator at the Department of Labor's Office of Unemployment Insurance, said in an interview.

As a result, the Department of Labor created the Unemployment Insurance Integrity Center of Excellence to share best practices, provide training and offer grants for innovative solutions at the state level. Since the inception of the center, Gilbert said, the federal unemployment insurance program has reduced two of their largest improper payment root cause areas: inaccurate data about why someone is out of work and continued benefits payments after an individual returns to work.

When building the center, Labor's Office of Unemployment Insurance "did not want it to be seen

17 Chad Stone and William Chen, "Introduction to Unemployment Insurance," *Center on Budget and Policy Priorities*, July 30, 2014, https://www.cbpp.org/research/introduction-to-unemployment-insurance (accessed 4 Sept. 2018).

as top down. It was really for the states' benefit, and we wanted it to be owned and used by the states," said Gilbert. To do this, the Office of Unemployment Insurance created a state-led steering committee to govern the center, operated through the National Association of State Workforce Agencies, an organization that represents these agencies in all 50 states, the U.S. territories and the District of Columbia.

The center provides training programs for state officials, some led by instructors and others online. Fraud investigation, data analytics, tax auditing and program operations are just a few of the subjects included in the center's training curriculum.

The center also hosts the Suspicious Actor Repository, a data set that collects information across participating states on unemployment claims that show signs of fraud. The data-sharing repository allows states to flag potential fraudulent cases and provides an opportunity for the center to look at fraud cases from a multistate perspective.

Providing Training to State Employees

Run by the Centers for Medicare and Medicaid Services, the Center for Program Integrity provides state Medicaid agencies with guidance and oversight, education, technical assistance and federal resources for augmenting their capacity to audit providers and stop improper payments. Through reviews of state processes and procedures, the center identifies areas of improvement and works with the states to make sure they have robust and effective program integrity strategies. In cooperation with the Department of Justice, CMS also runs the Medicaid Integrity Institute that provides training and technical assistance for state Medicaid program integrity employees.[1]

1 "Center for Program Integrity," *Centers for Medicare and Medicaid Services*, https://www.cms.gov/About-CMS/Components/CPI/CPI-Landing.html (accessed 21 Sept. 2018).

Using Behavioral Economics to Reduce Improper Payments

Among the leading practices the Unemployment Insurance Integrity Center promotes is New Mexico's use of behavioral economics—a field that applies psychological insights to explain economic decisions—to understand claimant decision-making. This is used as a means of developing strategies to reduce improper payments.

"New Mexico was a star in using behavioral insights to dramatically reduce their improper payments," Gilbert said.

In New Mexico, claimants self-report information about separations from work and anything they earn while receiving benefits. Inaccurate, self-reported data is a common cause of overpayments. In fiscal 2014, 52 percent of overpayments in federal unemployment benefits came from claimants misrepresenting why they were unemployed and how much they earned while receiving benefits. Using this information, New Mexico came up with a solution to limit overpayments due to dishonest self-reporting. As a result, individuals who apply for benefits are half as likely to commit fraud.[18]

New Mexico tested two ways to reduce overpayments by encouraging accurate responses from claimants. Individuals in the state are eligible to receive unemployment benefits only if they lose their job through no fault of their own, which excludes terminated employees or those who have voluntarily left their position. These eligibility criteria are initially determined in the application process by asking claimants why they are unemployed, a question an applicant may or may not answer honestly. While there are systems in place to verify this information, states frequently pay benefits before employers respond to requests to verify claimants' information.

To make this process more transparent, New Mexico showed claimants a copy of the letter that would go to an employer to verify the self-reported information. Through this simple act of transparency, claimants were 10 percent less likely to receive benefits for which they were not eligible, and the unemployment agency was 15 percent more likely to delay payments until it confirmed eligibility.[19]

Because claimants may be able to do part-time work and still receive benefits, they must report any wages they earn while collecting benefits to determine the amount they are eligible to receive. Claimants, however, often fail to report income to avoid deductions from their benefits. To prevent this from occurring, New Mexico integrated pop-up messages on its reporting website with statements such as "9 out of 10 people in [your county] accurately report earnings each week."[20] They used randomized

18 Joy Forehand and Michael Greene, "Nudging New Mexico: Kindling compliance among unemployment claimants," *Deloitte*, Jan. 25, 2016, https://www2.deloitte.com/insights/us/en/deloitte-review/issue-18/behavior-change-among-unemployment-claimants-behavioral-economics.html (accessed 4 Sept. 2016).

19 Ibid.

20 Ibid.

controlled trials to test which of the several messages were most effective. Ultimately, claimants shown pop-up boxes were 25 percent more likely to report their earnings than those in a control group.

The state's integration of behavioral economics into its strategy for reducing improper payments has resulted in long-term savings. Moreover, this model focused on preventing improper payments before claimants were paid rather than using resources to recover incorrect payments.

Obtaining Timely Data

Historically, the primary cause of improper payments within the Supplemental Security Income program has been a lack of timely income data from recipients. The SSI program, which provides financial help to those who are disabled, blind or aged and have limited income and assets, has found new ways to get the information it needs to help curtail improper payments. This includes developing a mobile application to expedite beneficiary wage reporting as well as the use of an automated process to determine if an individual owns real estate that may affect eligibility. In addition, the SSI program seeks access to recipient international arrival and departure information from the Department of Homeland Security. Under the law, benefits are suspended for recipients who remain outside the U.S. for one month or longer.[1]

1 "Improve Supplemental Security Income Payment Accuracy: Fiscal Year 2018, Quarter 3," Social Security Administration, https://www.performance.gov/SSA/FY2018_Q3_Improve_Supplemental_Security_Income_Payment_Accuracy.pdf (accessed 21 Sept. 2018).

KEY ACTIONS TO CONSIDER

Reducing improper payments is not an easy task. While each agency or program operates under a specific set of circumstances, there are a variety of resources and strategies available to help agencies tackle the improper payments problem.

Engage stakeholders and embrace collaboration across government. When designing solutions, agencies should engage with a broad range of stakeholders and lean on existing entities that address improper payments across government. The Do Not Pay Business Center provides free data analytic services that can complement an agency's program integrity efforts. Congress also has provided direction for agencies to better understand and prevent improper payments. Collaborating across governmental entities and sharing best practices can help agencies generate ideas for improving program integrity at individual agencies and can provide solutions an agency would not have identified on its own.

Conduct a risk assessment of the payment process from beginning to end. Agencies should look holistically at their payment process—from federal disbursements to the states to the user experience—and implement solutions that address risks throughout the process. Payments may begin at the federal level, but if agency leaders only consider solutions to this portion of the payment process, it will likely be difficult to make meaningful progress. The Unemployment Insurance Integrity Center shows how a state-driven solution can have a large impact on improper payments. New Mexico's Department of Workforce Solutions illustrates how focusing on the payment process from the claimant's perspective can increase program integrity. By following the payment process from beginning to end, adopting GAO's risk framework, and knowing the causes of the problems, programs will be better positioned to make more considerable progress.

Ensure access to good data. Timely and accurate data is essential to ensuring the right payment goes to the right person. Data also is key to understanding the primary reasons for improper payments and will inform possible solutions. New Mexico successfully used behavioral economics by drawing on data to inform its techniques to ensure more accurate claimant reporting. While agencies often have limited resources, it is important to invest in data analytics to help prevent improper payments and generate savings. Additionally, with resource constraints, agencies can use Do Not Pay to supplement their own work on payment integrity efforts.

CONCLUSION

To reduce improper payments in a meaningful way, agencies should go beyond standard solutions. By engaging stakeholders across government, looking at the payment process holistically, and ensuring access to timely and accurate data, agencies can be better positioned to identify and address the root causes of improper payments. This, in turn, can strengthen the case to leadership about why investing in this issue is critical to government effectiveness.

Project Team

PARTNERSHIP FOR PUBLIC SERVICE

Mary Ann Bavadi, Web and Design Manager

Bob Cohen, Staff Writer and Editor

Samantha Donaldson, Director of Communications

Kelsey Goetz, Project Lead

Eric Keller, Senior Manager and Advisor

Katie Malague, Vice President for Government Effectiveness

Tim Markatos, Associate Designer

DELOITTE

Kelly Bowman, Specialist Leader

David Mader, Chief Strategy Officer, Civilian Sector

Monte Zaben, Principal, Program Integrity Leader

PARTNERSHIP FOR PUBLIC SERVICE

1100 New York Avenue NW
Suite 200 East
Washington, DC 20005

(202) 775-9111
ourpublicservice.org
CFC# 12110

Deloitte.

1919 North Lynn St
Arlington, VA 22209

(571) 882-6254
deloitte.com/us/government

@rpublicservice

facebook.com/PartnershipforPublicService

rpublicservice