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Improper Payments in High Priority Programs: In Brief

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Summary

The Improper Payments Information Act (IPIA) of 2002 defines improper payments as payments that should not have been made or that were made in an incorrect amount, including both overpayments and underpayments. This definition includes payments made to ineligible recipients, duplicate payments, payments for a good or service not received, and payments that do not account for credit for applicable discounts. Since FY2004, federal agencies have been required to report on the amount of improper payments they issue each year and take steps to address the root causes of the problem. The data show a significant increase in improper payments from FY2007 (\$42 billion) to FY2010 (\$121 billion), followed by a slight decrease through FY2013 (\$106 billion). The increase in improper payment amounts may be partially attributed to an increase in the number of programs reporting between FY2007 and FY2010, as well as increased federal expenditures for many programs during that same timeframe. The data also show that a small subset of programs has accounted for 85% to 96% of the government's total improper payments each year. With that in mind, President Obama signed E.O. 13520 in 2009, which requires agencies to take additional measures with regard to these "high priority" programs. Notably, the executive order requires agencies to identify high priority programs, develop detailed plans for reducing related improper payments, and establish annual goals against which progress could be measured. Agencies have identified 13 high priority programs and all but one of them have been reporting data for several years. The data on high priority programs present mixed results. Four high priority programs showed sustained improvement over time, as indicated by steadily decreasing error rates, while four others reported little or no improvement in their error rates. Of the four remaining high priority programs that have reported data, error rates increased for two and slightly decreased for two others. Without further progress in reducing the error rates among high priority programs the government's total amount of improper payments may continue to exceed \$100 billion per fiscal year, as it has since FY2009.

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Background

In an effort to reduce and ultimately eliminate billions of dollars in improper payments made by federal agencies each year, Congress passed the Improper Payments Information Act (IPIA) in 2002.¹ IPIA established an initial framework for identifying, measuring, and reporting on improper payments at each agency. Under IPIA, an improper payment is defined as a payment that should not have been made or that was made in an incorrect amount, including both overpayments and underpayments. This definition includes payments made to ineligible recipients, duplicate payments, payments for a good or service not received, and payments that do not account for credit for applicable discounts. In FY2010, Congress amended IPIA to require improvements in agency improper payments estimation and reporting processes, among other changes.²

Trends in Total Improper Payments

Under IPIA, as amended, agencies are required to identify programs susceptible to significant improper payments, to estimate the amount of improper payments issued under those programs, and to notify Congress of the steps being taken to address the root causes of the improper payments.³ Generally, a program is deemed susceptible to “significant” improper payments if it has (1) improper payments that exceed both \$10 million and 2.5% of total program payments, or (2) more than \$100 million in total improper payments.⁴ For FY2013, agencies determined that 85 programs were susceptible to significant improper payments, and that those programs issued more than \$106 billion in improper payments that year.⁵ Since FY2004, when agencies first began reporting improper payments, the government has identified approximately \$800 billion in erroneous payments. **Table 1** shows annual improper payment amounts for the 85 risk-susceptible programs from FY2004 through FY2013.

**Table 1. Significant Improper Payments Amounts,
Government-Wide FY2004-FY2013**

In Billions of Dollars

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	\$48	\$38	\$41	\$42	\$73	\$106	\$121	\$116	\$109	\$106

Source: Office of Management and Budget, “Payment Accuracy: Improper Payment Amounts (FYs 2004–2013),” at <https://www.paymentaccuracy.gov/improper-payment-amounts>.

Note: The number of programs for which improper payments were reported increased between FY2004 and FY2013. Data in table include only 85 programs deemed susceptible to significant improper payments (see text).

¹ 116 Stat. 2350.

² The Improper Payments Elimination and Recovery Act (IPERA; P.L. 111-204).

³ 116 Stat. 2350.

⁴ 124 Stat. 2224.

⁵ Office of Management and Budget, “Payment Accuracy: Frequently Asked Questions,” at <https://www.paymentaccuracy.gov/content/faq#20>.

The data in **Table 1** show that the amount of improper payments reported was relatively flat through FY2007, after which it increased rapidly—nearly tripling by FY2010—and has then slowly declined. The increase in improper payments between FY2007 and FY2010 can be partially attributed to the inclusion of new programs. A number of programs with billions of dollars in annual outlays lacked valid improper payments estimates and did not begin reporting until FY2008. The Department of Health and Human Services (HHS) first reported on Medicaid, for example, in FY2008, estimating \$19 billion in improper payments out of \$178 billion in outlays that fiscal year.⁶ In addition, government expenditures for public assistance increased between FY2007 and FY2010 as the economy weakened, which further increased the amount of improper payments issued under many risk-susceptible programs. Expenditures under the Medicare Fee-for-Service program, for example, increased from \$276 billion in FY2007 to \$326 billion in FY2010, while the program’s improper payments increased from \$11 billion to \$30 billion during that same time.⁷

High Priority Programs

As suggested in the previous section, a relatively small number of programs with annual improper payments of \$1 billion or more account for a significant portion of the government’s total improper payments. With this in mind, in November 2009, President Obama signed Executive Order 13520, which required the Director of the Office of Management and Budget (OMB) to work with agencies to identify “high priority” programs (those which account for the “highest dollar value or majority of improper payments” across the government), establish annual targets for reducing improper payments under high priority programs, and submit a report to the agency’s inspector general that detailed how the agency planned to meet those targets. The executive order also required agencies to publish data on improper payments estimates and targets for the high priority programs they administer.⁸

In response to E.O. 13520, OMB created a central website, PaymentAccuracy.gov, which includes data for all high priority programs, as the executive order required.⁹ OMB also revised OMB Circular A-123, Appendix C, to incorporate the new requirements for high priority programs. Under the revised circular, a program is deemed high priority if it has

- reported more than \$750 million in improper payments in the most recent fiscal year;
- not reported an improper payments amount for the most recent fiscal year, but has reported more than \$750 million in improper payments in a previous fiscal year; or

⁶ Office of Management and Budget, Office of Federal Financial Management, “Improper Payments Dataset,” at http://www.whitehouse.gov/omb/financial/improper_payment_dataset.

⁷ Ibid.

⁸ Congress subsequently incorporated these requirements in the Improper Payments Elimination and Recovery Improvement Act of 2012 (126 Stat. 2390-2391).

⁹ Executive Order 13520, “Reducing Improper Payments,” 74 *Federal Register* 62201, November 20, 2009.

- not yet reported on improper payments for the program as a whole, but has determined that the total amount of improper payments for program components that have been measured exceeds \$750 million.¹⁰

As of July 2014, OMB had identified 13 high priority programs, 12 of which reported improper payment amounts for FY2013.¹¹ According to OMB, data on the one high priority program that has not yet reported any improper payments amounts, the Children’s Health Insurance Program (CHIP), may be available at the end of FY2014 when a valid error rate is anticipated to be established.¹² Five other high priority programs did not begin reporting improper payments data in FY2004, as required under IPFA, due to difficulties developing estimates. These programs were the National School Lunch Program, which first reported improper payment amounts for FY2007; Medicaid, Medicare Part C, and Pell Grants, each of which first reported for FY2008; and Medicare Part D, which first reported improper payment amounts for FY2011.¹³ Data on high priority programs are thus incomplete, as the number of programs reporting improper payments amounts and rates varied over time. **Table 2**, below, identifies the amount of improper payments issued by each high priority program from FY2004 through FY2013.

Table 2. High Priority Program Improper Payments Amounts, FY2004-FY2013
In Billions of Dollars

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Medicare (Fee-for-Service)	\$22	\$12	\$11	\$11	\$10	\$31	\$30	\$29	\$30	\$36
Earned Income Tax Credit (EITC)	10	11	11	11	12	12	17	15	13	15
Medicaid	NR	NR	NR	NR	19	18	23	22	19	14
Medicare Advantage (Part C)	NR	NR	NR	NR	7	12	14	12	13	12
Unemployment Insurance (UI)	4	3	3	3	4	12	17	14	10	6
Supplemental Security Income (SSI)	3	3	3	4	5	5	5	5	5	4
Supplemental Nutrition Assistance (SNAP)	2	1	2	2	2	2	2	2	3	3
Retirement, Survivors, and Disability Insurance (RSDI)	2	4	3	3	2	3	3	5	3	2

¹⁰ Office of Management and Budget, *Memorandum for Heads of Executive Departments and Agencies: Issuance of Part III to OMB Circular A-123, Appendix C*, M-10-13, March 22, 2010, pp. 16-23.

¹¹ Office of Management and Budget, “Payment Accuracy: High-Error Programs,” at <https://www.paymentaccuracy.gov/high-priority-programs>.

¹² Ibid.

¹³ Ibid.

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
National School Lunch Program	NR	NR	NR	1	1	2	1	2	2	2
Medicare Prescription Drug Benefit (Part D)	NR	NR	NR	NR	NR	NR	NR	2	2	2
Pell Grants	1	NR	NR	NR	1	1	1	1	1	1
Rental Housing Assistance	2	1	1	2	1	1	1	1	1	1
Children's Health Insurance Program (CHIP)	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
Total	\$46	\$35	\$34	\$37	\$64	\$99	\$114	\$110	\$102	\$98

Source: Office of Management and Budget, "Payment Accuracy: High-Error Programs," at <https://www.paymentaccuracy.gov/high-priority-programs>.

Notes: NR stands for Not Reported. An NR indicates that an agency had not yet developed a valid improper payment rate for the program and so no data were published for that fiscal year.

The data in **Table 2** show that 12 high priority programs issued \$738 billion in improper payments in the past 10 fiscal years. The data also show that a subgroup of four of the high priority programs—Medicare Fee-for-Service, Earned Income Tax Credit (EITC), Medicaid, and Medicare Advantage—accounted for a large proportion of the government's total improper payments each of those years. In FY2013, those four programs accounted for \$77 billion of the government's total improper payments of \$106 billion. Restated, four programs accounted for an estimated 73% of all of the government's improper payments in the most recent fiscal year for which data are available. Three of those programs have seen their improper payments increase significantly since they first started reporting: improper payments for the Medicare Fee-for-Service program increased 64%, EITC 50%, and Medicare Advantage 71%. Overall, just 2 of the 12 high priority programs that have reported improper payments data so far, Medicaid and Rental Housing Assistance, have seen a decrease in the amount of annual improper payments between their first year of reporting and FY2013.

Taken as a whole, high priority programs have accounted for a large percentage of the government's total annual improper payments each fiscal year. As **Table 3** shows, high priority programs accounted for 85% to 96% of the improper payments reported by agencies annually from FY2004 through FY2013.

Table 3. Percentage of Total Improper Payments Attributable to High Priority Programs, FY2004-FY2013

In Billions of Dollars

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
High Priority	\$46	\$35	\$34	\$37	\$64	\$99	\$114	\$110	\$102	\$98
Total	48	38	40	42	73	106	121	116	109	106
Percentage	96%	92%	85%	88%	88%	93%	94%	95%	94%	92%

Source: Office of Management and Budget, "Payment Accuracy: High-Error Programs," at <https://www.paymentaccuracy.gov/high-priority-programs>.

The data in **Table 3** show that after some fluctuation during the first five years of reporting, high priority programs have accounted for a relatively stable portion of the government’s total improper payments. Between FY2004 and FY2008, high priority programs accounted for as much as 96% and as little as 85% of the government’s total improper payments, a variance of 11 percentage points. By comparison, between FY2009 and FY2013, high priority programs accounted for as much as 95% and as little as 92% of the government’s total improper payments—a variance of 3 percentage points. The first five years of reporting may have displayed greater variance because three new high priority programs were added during that time, while one new high priority program was added between FY2009 and FY2013. When new programs begin reporting data it may take time for agencies to refine their improper payments estimates. This could, in turn, increase year-to-year variations in total improper payments—variations that should theoretically diminish over time as agencies develop more accurate measures. Should the current trend continue into future fiscal years, high priority programs would account for 9 out of every 10 dollars reported as improper payments.

High Priority Program Error Rates

OMB’s guidance on high priority programs was intended to focus agency efforts on the subset of programs with the highest dollar amounts of improper payments. As the data in **Table 4** show, however, the results have been mixed. While some high priority programs have seen a steady decline in their improper payments error rates, others have shown little or no improvement—and some have seen their error rates increase over time.

Table 4. High Priority Program and Government-Wide Error Rates, FY2004-FY2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Earned Income Tax Credit	24.5%	25.4%	25.4%	25.5%	25.4%	NR	26.3%	23.5%	22.7%	24.0%
National School Lunch Program	NR	NR	NR	16.3	16.5	16.4	16.3	16.0	15.5	15.7
Medicare (Fee-for-Service)	10.1	5.2	4.4	3.9	3.6	10.8	9.1	8.6	8.5	10.1
Medicare (Part C)	NR	NR	NR	NR	10.6	15.4	14.1	11.0	11.4	9.5
Unemployment Insurance	10.3	10.1	10.9	10.3	10.0	10.3	11.2	12.0	11.4	9.3
Supplemental Security Income	7.3	7.8	7.8	10.1	10.7	12.1	10.0	9.1	9.2	8.1
Medicaid	NR	NR	NR	NR	10.5	9.6	9.4	8.1	7.1	5.8
Rental Housing Assistance	6.9	5.6	5.4	5.5	3.5	3.5	3.1	2.9	3.9	4.3
Medicare (Part D)	NR	NR	NR	NR	NR	NR	NR	3.2	3.1	3.7
Supplemental Nutrition Assistance	6.6	5.9	5.8	6.0	5.6	5.0	4.4	3.8	3.8	3.4
Pell Grants	4.9	3.5	3.5	3.5	4.1	3.5	3.1	2.7	2.5	2.3

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retirement, Survivors, and Disability Income	0.3	0.7	0.6	0.5	0.3	0.4	0.5	0.6	0.4	0.3
Children's Health Insurance Program	NR	NR	NR	NR	NR	NR	NR	NR	NR	NR
Government-wide	4.4	3.1	2.9	2.8	4.0	5.4	5.3	4.7	4.4	3.5

Sources: Office of Management and Budget, “Payment Accuracy: High-Error Programs,” at <https://www.paymentaccuracy.gov/high-priority-programs>. Office of Management and Budget, *Improving the Accuracy and Integrity of Federal Payments*, January 25, 2005, Appendix, at http://www.whitehouse.gov/sites/default/files/omb/assets/omb/financial/fia/ipia_gov-wide_report.pdf.

Notes: NR stands for Not Reported. An NR indicates that an agency had not yet developed a valid improper payment rate for the program and so no data were published for that fiscal year.

The data show that the government-wide error rate has decreased steadily over the past five fiscal years. In FY2013, the government-wide error rate stood at 3.5%, a decline from its peak of 5.4% in FY2009. Notably, the error rate declined every year between FY2009 and FY2013, which may indicate that agency efforts to address the root causes of improper payments are yielding lasting results.

The data also indicate, however, that several high priority programs have shown little or no improvement. The error rate for EITC—by far the highest of any high priority program—has remained virtually unchanged over 10 years of reporting. In FY2004, EITC’s error rate stood at 24.5%, and at the end of FY2013 it stood at 24.0%. Two other high priority programs ended FY2013 with the same error rates that they had 10 years ago—Medicare Fee-for-Service (10.1%) and Retirement, Survivors, and Disability Income RSDI (0.3%). Moreover, the error rates for two high priority programs have increased over time. The error rate for Supplemental Security Income (SSI) increased from 7.3% in FY2004 to 8.1% in FY2013, and the error rate for Medicare Part D increased from 3.2% in FY2011—the first year it was reported—to 3.7% in FY2013. With regard to the latter program, only three years of data are available so a sustained trend is not yet established.

The error rates for six high priority programs have decreased over time. For two of these programs, however, reduced error rates may not indicate improved program management. The error rate for Unemployment Insurance (UI) decreased from 10.3% in FY2004 to 9.3% in FY2013—but exceeded 10.0% in each of the intervening years. The FY2013 error rate may therefore be an anomaly. Similarly, the National School Lunch Program has reported a small reduction in its error rate over seven years, dropping from 16.3% in its first year of reporting (FY2007) to 15.7% in FY2013. This equates to an average reduction of one-tenth of one percentage point per year. At that rate, it would take more than 50 years for the program’s error rate to reach single digits. By contrast, four high priority programs showed consistent, sustained reductions in their error rates. The error rate for the Supplemental Nutrition Assistance Program (SNAP) fell from 6.6% in FY2004 to 3.4% in FY2013, and Medicaid’s fell from 10.5% in FY2008—its first reporting year—to 5.8% in FY2013. In addition, the error rate for the Pell Grants program was cut in half between FY2004 and FY2013, and the error rate for the Rental Housing Assistance program declined from 6.9% to 4.9% over that same period.

In sum, while the government-wide error rate has fallen each of the past four fiscal years, there has been little progress made reducing the error rates for a number of high priority programs. As a

consequence, 10 years after agencies first reported improper payment rates and amounts, the government still issues more than \$100 billion a year in improper payments.

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