CRITIQUE ON THE EFFECTIVENESS OF THE DIFFERING PROCESSES USED TO DETERMINE IMPROPER PAYMENT RATES

This document represents the first deliverable by the critique subgroup of the joint CFO/PCIE improper and erroneous payments work group. The purpose of this subgroup is to critique the various processes used by Federal agencies to identify erroneous and improper payments. The basis for our critique of the improper payment methodologies were the FY 2003 Federal Budget submissions which included OMB A-11, section 57 - Information on Erroneous Payments.

Background

The FY 2001 release of OMB Circular A-11, Preparing and Submitting Budget Estimates, contained a new section 57 requesting that for certain specified programs, information on erroneous payments, assessments, and action plans be included in the initial FY 2003 submission of the affected agencies. For each indirect program listed in Exhibit 57 of OMB Circular A-11, where erroneous payments are not currently estimated, agencies are required to determine whether and how erroneous payments could be estimated. This analysis should be an assessment of the costs and benefits of collecting new or additional data and should describe any obstacles to establishing estimation procedures.

Several additional changes in FY 2002 to OMB Circular A-11 section 57, were the requirement of agencies to submit erroneous payment information using standard electronic reporting format, a status of Action Plans for conducting risk assessments to determine erroneous payments and reducing erroneous payments (target rates), and more significantly, the estimated improper payments should be based on a statistically valid sample projected to the universe of program payments or a 100 percent review of the payments. If the estimates are not based on a statistical projection to the universe, a detailed description and assessment of the current methods used is required.

Critique Approach

We critiqued the A-11 Section 57 submissions from 9 Federal agencies and 17 different programs ranging from entitlement programs to grant and credit programs. Since these agencies and programs are so vastly different, we thought the best way to critique the submissions was to prepare a table with the agency and program identified, and for each program, we critiqued the methodology used and whether it was a viable methodology that produced meaningful results or whether more information is needed to make an assessment. The criteria we used to critique the various methodologies were whether the process was based on a statistically valid sample or a 100 percent review.

Conclusions and Remarks

Attached are the critique of 9 Federal Agencies and their related programs. The submissions were provided to the subgroup by OMB and are a fair representation of the 15 Federal Agencies for which erroneous payment information was requested.
We must note however, that based on some of the submissions received only limited information was provided, and without having any prior knowledge or history of some of these programs, determining the effectiveness of the processes used to determine improper payments was difficult.

For the 17 program submissions we critiqued we rated them as: (1) good - sound methodology that is based on a valid statistical sample, (2) OK but needs improvement, and (3) more information is needed to make a determination.

Results of Critique: (1) 8 of the 17 programs appear to have good methodologies based on valid statistical samples. (2) 4 of the 17 programs are OK, but more could be done to improve the methodologies to have better results. (3) 5 of the 17 programs need more information on the methodology to make a determination.

CRITIQUE SUBGROUP

Department/ Agency/ Bureau	Program	Methodology	Results	Remarks
Small Business Administration	7 (a) Loan Guarantee	Sampling of 10% of guarantee defaults	$8 million (2% of guarantee payments)	
	CDC Debenture program			No erroneous payments identified for this program
	SBIC Investment Company debentures	Review of SBIC financings	7.5% of financings have potential violations of SBIC regulations	Measurement system in development
	Disaster Loans	Quality Review program	None yet	QR program to sample eligibilty criteria in 2002
Education	SFA Title IV Loans	OIG study	$12.6 million	SFA study indicates IG study significantly overstated
	SFA Title IV Loans	Audit Liabilities - Estimates of IEP for ineligible programs or failure to meet academic standards	$25 million	2001 data is complete
	SFA Title IV Loans	Program Review of IEP for ineligible programs or failure to meet academic standards	$34 million	This is an average of previous years data
	SFA Title IV Loans	Lender Liabilities from audits due to improper due diligence or billing	$6 million	Previous year data
	SFA Title IV Loans	Audits of Gurantee Agency Liabilities from improper due diligence and billing	$.1 million	Insignificant

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Health and Human Services	Administration for Children and Families (ACF) Programs	HHS utilized the results of A-133 audits of ACF programs to determine the erroneous payment rates. The rates were calculated for each program ACF program.	FY 2000 and FY 2001 estimated $14 million or less than .025% of total program costs.	It appears that the rates were determined based on the questioned costs in the A-133 reports. There is no indication as to whether the report was "scrubbed" by eliminating un-supported costs that were later sustained by the ACF audit liason. In additon, the costs questioned could have also included costs dis-allowed due to the difference between provisional billing rates for overhead and fringe benefits and the actual rates. This difference should not be considered erroneous payments since it was anticipated that the overhead costs would be evaluated after the end of the grantee's fiscal year and adjusted to reflect the actual overhead costs.
Department of Transportation	Highway Construction Grant	The report did not explain the criteria for the erroneous payment.	DOT was aware of 1817 erroneous payments made during 2000 and 2001 totaling $9.5 million.	Most of the report dealt with DOT's contract with PRG-Schultz for recovery auditing.

Department/ Agency/ Bureau	Program	Methodology	Results	Remarks
HHS/Centers for Medicare and Medicaid Services (CMS)	Medicare Fee-For-Service Payments to Providers: 930 millions claims totaling over $192 billion.	Statistically valid sample of Medicare contractors and Medicare beneficiaries (multi-stage stratified sample design). Annual audit since FY 1996. Variable appraisal program to estimate dollar value of improper payments in total population of fee-for-service payments.	FY 2001: Improper payments estimated at $12 .1 B or about 6.3% of the $192 B in processed fee-for-service payments reported by CMS. 92% errors detected through medical record reviews.	Error rate lower each year since inception. Performance measures in place; GRPA goals on target due to outreach programs with providers; corrective action plans, and continuous vigilance of error rate. Sentinel effect throughout the provider community. FY 2002 will be the last year that OIG will produce the Medicare national error rate. CMS has utilized OIG sample design, and review process for the CERT and PEPP process. Baseline for CMS error rate will be OIG established rates.
	Medicare Fee-For-Service Payments-to report error rate for FY 2003.	CMS developed a Comprehensive Error Rate Testing (CERT) program that will produce contractor, provider, and benefit-specific error rates. Sample size approximately 120,000 claims annually. Payment Error Prevention Program (PEPP) will be focused at acute care hospitals. Approximately 60,000 claims sample annually.	Error Rate to be issued for FY 2003. (2/2004)	OIG will review Cert & PEPP process as part of a Congressional subcommittee request and oversight function. OIG to issue position paper on CMS sample design and process of reporting of improper payments.
	Medicaid -$130.4B (Federal Share) Paid to States.	FY 2002 Target: 9 pilot states will conduct payment accuracy measurement studies to be used for all Pilots will be 100% federally funded. The pilot states will use their own Medicaid paid claims.	CMS goal to develop one methodology that can be used to develop state-specific and national Medicaid payment accuracy rates.	No error rate to report currently. CMS and technical consultants will work with pilot States, OIG to evaluate the payment accuracy measurement methodology including data sources and validation. CMS Expansion of pilot to additional States beyond FY 2002 will be contingent availability of Medicaid funding and Health Care Fraud and Abuse Control funding.
Office of Personnel Management	Retirement, Health Benefits & Life Insurance for Federal Employees, retirees, and family members.	Retirement Activities: Independent Public Accounts (IPA) perform annual benefits review as part of financial statement audit; sample selected and claim re-adjudicated to determine impact on fund balance.	Estimated improper payments. $408 M or .024% of total disbursements of $87 B.	OPM had determined that 63% of overpayments occur because of delayed reporting due to changes in an individual's status (death, marriage) that result in a changed benefit. OPM has also acknowledged that future system enhancements will be better define define overpayments at a very detailed level. We recommend additional information be provided concerning sampling design and process to determine effectiveness of improper payment methodology.
	FY Total disbursements $87 B. (Retirement $67 B, Insurance $20 B).	Insurance Activities: OPM OIG performs compliance audits that review Health & Life Insurance Carrier financial transactions relating to benefits and G&A expenses.		
U.S. Department of Agriculture National School Lunch Program (NSLP)	National School Lunch Program School Meals Certification Accuracy. The number of children certified for free and reduced-price meals is used extensively at the Federal, State, and local level to distribute billions in education aid.	No methodology mentioned in submission.	No reliable estimate of the cost of certification error using currently available data. However the total number of students certified for free meals exceeded the number that was eligible by 27%.	

Department/ Agency/ Bureau	Program	Methodology	Results	Remarks
Social Security Administration	Retirement and Survivors Insurance	Statistically valid sample of all payments issued. For each payment selected the factors of entitlement are redeveloped. Development exceeds established policy and procedure.	Separate error rates are established for overpayments and underpayments: FY 2000: Overpayments--0.1% Underpayments--0.1%	
	Disability Insurance	Statistically valid sample of all payments issued. For each payment selected the non-medical factors of entitlement are redeveloped. Development exceeds established policy and procedure.	Separate error rates are established for overpayments and underpayments: FY 2000: Overpayments--0.4% Underpayments--0.4%	Medical error rates are evaluated separately and only for initial claims and reconsideration's (appeals). Rates are calculated separately for allowance and denials. Rates apply to both Disability Insurance and Supplemental Security Income Disability claims combined: FY 2000: Allowances--1.6% Denials--5.9%
	Supplemental Security Income	Statistically valid sample of all payments issued. For each payment selected the non-medical factors of entitlement are redeveloped. Development established policy and procedure.	Separate error rates are established for overpayments and underpayments: FY 2000: Overpayments--6.4% Underpayments--1.4%	

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Department of Labor	Unemployment Insurance Benefits	Benefit Accuracy Measurement program-estimates overpayments based on intensive investigation of a small sample of benefit payments. Review goes beyond standard operational procedures. Rates calculated by individual states.	Error rates calculated for each state and combined for a national rate. FY 2001--8.19%	No rates for Colorado or Puerto Rico.

Department/ Agency/ Bureau	Program	Methodology	Results	Remarks
Treasury/IRS	Earned Income Tax Credit: 20 million claims on annual tax returns by individuals totaling over $30 billion	Statistically valid sample chosen every other year and audits conducted. Results extrapolated to entire population claiming EITC.	Tax Year 1999: Refunds Paid in 2001[1] 46%-50% of claims are erroneous; $8.5b-$9.9b or 31%-36% of claims are paid erroneously	Measurement program does not take into account the number of individuals who are eligible, but do not claim the credit. Also, individuals are not 'pre-qualified' before payments are made.
Department of Education	Student Financial Assistance: Funding for grants and loans is more than $48 billion, including more than $26 billion in guaranteed loans. It is estimated that more than $3.7 billion in authorized payments to guaranty agencies and payments to lenders of more than $3.4 billion to lenders.	Various methods, including exception reporting, statistical sample, program review, compliance audit.	Estimate for FY 2001: Total of $135.4 million comprised of: Internal - $170.3 million External - $65.1 million. Less than 1% is estimated to be paid erroneously.	ED's grant programs are subject to the Single Audit Act when the annual award exceeds $300K. Grant recipients' indirect cost rates are approved by their cognizant Federal agency; however, their budget submissions are scrutinized as part of the audit process.

[1] Source: http://www.irs.ustreas.gov/pub/irs-utl/compesteitc99.pdf

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Department of Agriculture--FNS	Food Stamps	States perform random sample selection based on instructions from FNS (handbook with instructions will be provided) and state results are reviewed and randomly selected for national staff to audit and validate results. Error rates calculated every year by the use of a statistical sample and calculated on the program.	Estimated to have error rate (over and under payments) as of 4/10/2002 of 8.7% nationwide. Unadjusted sanctions (fines) total $163,057,588 and sanctions adjusted for earners and aliens is $135,763,476.00	