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Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.
EXECUTIVE SUMMARY

*The U. S. Department of Health and Human Services met many requirements of the Improper Payments Information Act of 2002 but did not fully comply for fiscal year 2014.*

WHY WE DID THIS REVIEW

The Improper Payments Elimination and Recovery Act of 2010 (IPERA; P.L. No. 111-204) requires Offices of Inspector General (OIGs) to review and report on agencies’ annual improper payment information included in their Agency Financial Reports (AFRs) to determine compliance with the Improper Payments Information Act of 2002 (IPIA; P.L. No. 107-300) as amended by IPERA as well as the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. No. 112-248). (“IPIA” will refer to this law as amended by IPERA and IPERIA.) Our objectives were to (1) determine whether the Department of Health and Human Services (Department) complied with the IPIA for fiscal year (FY) 2014 in accordance with related Office of Management and Budget (OMB) guidance, (2) evaluate the Department’s assessment of the level of risk and the quality of the improper payment estimates and methodology for high-priority programs, and (3) assess the Department’s performance in reducing and recapturing improper payments. This is the fourth annual review of improper payments that we have conducted.

BACKGROUND

To improve accountability of Federal agencies’ administration of funds, the IPIA requires agencies, including the Department, to annually report to the President and Congress on the agencies’ improper payments. An improper payment is any payment that should not have been made or that was made in an incorrect amount (either overpayments or underpayments). The Department issued its FY 2014 AFR on November 13, 2014.

As required by OMB, agencies must report on six key issues as part of their IPIA compliance reporting: (1) publishing an AFR and posting it on the agency Web site, (2) conducting a program-specific risk assessment, (3) developing improper payment estimates for programs and activities identified as risk-susceptible, (4) publishing corrective action plans (CAPs), (5) establishing annual reduction targets for those risk-susceptible programs, and (6) reporting gross improper payment rates of less than 10 percent. In addition to assessing compliance with the IPIA, an OIG may evaluate the accuracy and completeness of agency reporting, as well as the agency’s performance in reducing and recapturing improper payments. In addition, the Disaster Relief Appropriations Act (DRAA; P.L. No. 113-2) provides that all programs and activities receiving funds under the DRAA are deemed to be “susceptible to significant improper payments” for the purposes of the IPIA (section 904(b)). The program or activities that received funding under the DRAA are required to report and calculate an improper payment estimate.

WHAT WE FOUND

Although the Department met many IPIA requirements and other OMB reporting requirements, it did not fully comply with the IPIA. As required, the Department:
• published an AFR for FY 2014 and posted that report and accompanying material on the Department’s Web site,

• conducted a program-specific risk assessment of five programs that were not deemed susceptible to significant improper payments by OMB to identify those programs or activities that might have been susceptible to significant improper payments—this current risk assessment was part of an ongoing 3-year cycle to assess the risk in such programs,

• published improper payment estimates for seven of the eight programs that OMB deemed to be susceptible to significant improper payments and all seven programs deemed susceptible to significant improper payments under the DRAA,

• published CAPs for seven of the eight programs that OMB deemed to be susceptible to significant improper payments and all seven programs deemed susceptible to significant improper payments under the DRAA,

• published and met annual reduction targets for two of the six programs for which it reported reduction targets in the FY 2013 AFR, and

• reported an improper payment rate of less than 10 percent for six of the eight programs that OMB deemed to be susceptible to significant improper payments and five of the seven programs deemed susceptible to significant improper payments under the DRAA.

However, the Department did not fully comply with several IPIA requirements. Specifically the Department:

• did not perform risk assessments of payments to employees and charge card payments;

• did not publish an improper payment estimate for one of eight programs that OMB deemed to be susceptible to significant improper payments (the Temporary Assistance for Needy Families program (TANF));

• did not publish CAPs for one of the eight programs that OMB deemed to be susceptible to significant improper payments (TANF);

• did not meet improper payment rate reduction targets for four of the six programs for which it reported reduction targets in the FY 2013 AFR (Medicare Fee-for-Service (FFS), Medicaid, Foster Care, and Child Care Development Fund); and

• did not report an improper payment rate of less than 10 percent for one of the eight programs deemed susceptible to improper payments by OMB (Medicare FFS) and two of the seven programs deemed susceptible to improper payments under the DRAA (Administration for Children and Families Social Services Block Grant and Substance Abuse and Mental Health Services Administration Grants).
In addition, we found that the Department has not been in compliance with the IPIA for 4 consecutive FYs for TANF (no estimate of improper payments and failure to meet other IPIA requirements) and 3 consecutive FYs for the Medicare FFS program (failure to meet annual reduction targets). This determination of noncompliance with IPIA for 3 consecutive fiscal years for the same program or activity requires the agency head to submit to Congress either reauthorization proposals for each program or activity that have not been in compliance for 3 or more consecutive FYs or propose statutory changes necessary to bring the program or activity into compliance. To address this requirement, the Department said in its written comments to this report that it submitted legislative proposals to Congress in 2014.

The Department followed OMB’s guidance, which states “programs that have been determined to be susceptible to significant improper payments and that are already reporting an estimate—or in the process of establishing an estimate—do not have to perform additional risk assessments” (OMB Circular A-123, § I.A.10). Accordingly, the Department does not conduct additional risk assessments for these four high-priority programs: Medicare FFS, Medicare Advantage, Medicare Prescription Drug Benefit, and Medicaid.

The Department reported information on its efforts to recapture improper payments and the results of those actions. The Department reported that the Medicare FFS recovery auditors collected $2.4 billion in FY 2014, compared with $3.7 billion for FY 2013. The Department noted that the primary reason for the decrease was the cessation in Recovery Audit Contractor (RAC) activities due to the delay in awarding new Medicare FFS RAC contracts.

**WHAT WE RECOMMEND**

The Department has not fully addressed all of our recommendations from prior years, including the need to provide an improper payment estimate for TANF, meet improper payment rate reduction targets, and reduce improper payment error rates to below 10 percent. Addressing these recommendations would improve the Department’s compliance with the IPIA, including compliance issues in our current findings. We will continue to follow up until these recommendations are resolved and reiterate the need to take action on these issues.

To address a new requirement under OMB’s guidance, we recommend that the Department conduct risk assessments of payments to employees and charge card payments as part of its risk assessment process for 2015.

**DEPARTMENT COMMENTS AND OUR RESPONSE**

In its comments on our draft report, the Department provided information on the status of actions it has taken in response to our previous recommendations. In addition, the Department advised us that it is currently reviewing new requirements and other guidance to determine how to perform risk assessments for payments to employees and charge card payments.

We appreciate the actions that the Department has taken and plans to take to ensure compliance with IPIA and to reduce improper payments. With regard to the finding that the Department did not perform risk assessments for payments to employees and charge cards payments, we
acknowledge OMB did not provide updated guidance until October 2014. IPERIA and OMB guidance, however, specifically required the Department to perform risk assessments of these activities for FY 2014.
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INTRODUCTION

WHY WE DID THIS REVIEW

The Improper Payments Elimination and Recovery Act of 2010 (IPERA; P.L. No. 111-204) requires Offices of Inspector General (OIGs) to review and report on agencies’ annual improper payment information included in their Agency Financial Reports (AFRs) to determine compliance with the Improper Payments Information Act of 2002 (IPIA; P.L. No. 107-300) as amended.¹

OBJECTIVES

Our objectives were to (1) determine whether the Department of Health and Human Services (Department) complied with the IPIA for fiscal year (FY) 2014 in accordance with related Office of Management and Budget (OMB) guidance, (2) evaluate the Department’s assessment of the level of risk and the quality of the improper payment estimates and methodology for high-priority programs,² and (3) assess the Department’s performance in reducing and recapturing improper payments.

BACKGROUND

In its FY 2014 AFR, the Department reported approximately $78.4 billion in improper payments. An improper payment is any payment that should not have been made or that was made in an incorrect amount (either overpayments or underpayments). To improve accountability of Federal agencies’ administration of funds, the IPIA requires agencies, including the Department, to annually report information to the President and Congress on the agencies’ improper payments. OMB Circulars provide guidance on the implementation of and reporting under the IPIA (OMB Circular A-123, Appendix C, parts I and II, and OMB Circular A-136, § II.5.8). Further, OMB has deemed eight programs to be susceptible to significant improper payments.³

On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act (DRAA; P.L. No. 113-2), which provides aid to Superstorm Sandy disaster victims and their communities. All programs and activities receiving funds under the DRAA are deemed to be “susceptible to significant improper payments” for the purposes of IPIA (section 904(b)), so the DRAA requires agencies to calculate and report an improper payment estimate for these programs and activities.

¹ The IPIA has been amended by IPERA, as well as by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA; P.L. No. 112-248). In this report, “IPIA” will mean the IPIA as amended by IPERA and IPERIA.

² A high-priority program is one that has improper payments of greater than $750 million (OMB Circular A-123, Appendix C, Figure 1).

³ “Significant” improper payments are improper payments in a FY that exceeded (1) $10 million of all program or activity payments and 1.5 percent of program outlays or (2) $100 million.
Determining Compliance With the Improper Payments Information Act of 2002 and Office of Management and Budget Guidance

Under OMB’s guidance, OIGs must determine compliance with IPIA and evaluate selected issues for high-priority programs. OMB’s guidance provides OIGs flexibility to review other aspects of improper payment reporting and agency efforts at prevention and recapture of improper payments.

To determine compliance with the IPIA and OMB guidance, an OIG should review its agency’s AFR of the most recent FY to determine whether the agency has:

- published an AFR for the most recent FY and posted that report and any accompanying material required by OMB on its Web site,
- conducted a program-specific risk assessment, if required, for each program or activity to identify those that may be susceptible to significant improper payments,
- published improper payment estimates for all programs and activities identified in its risk assessment as susceptible to significant improper payments,
- published programmatic corrective action plans (CAPs) in the AFR as required,
- published and met annual reduction targets for each program assessed to be at risk and measured for improper payments (as required), and,
- reported a gross improper payment rate of less than 10 percent for each program or activity for which an improper payment estimate was obtained and published in the AFR.

Each OIG must evaluate its agency assessment of the level of risk and quality of improper payments estimates and methodology for high priority programs.

Each OIG may also evaluate the accuracy and completeness of agency reporting and evaluate agency performance in reducing and recapturing improper payments (OMB Circular A-123, Appendix C, § II.A.4).5

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4 OMB, Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments (M-15-02), October 20, 2014. The responsibilities for the OIG are listed in part II, section A.

5 An estimate of improper payments is not an estimate of fraud. Because the improper payment estimation process is not designed to detect or measure the amount of fraud in programs such as Medicare, there may be fraud in a program that is not included in the reported improper payment estimate.
Key Issues Identified in Our Prior-Year Report

In April 2014, we issued a report on the Department’s compliance with the IPIA for FY 2013. In that report, we determined that the Department met many IPIA requirements but did not fully comply with the IPIA. Specifically, the Department:

- did not publish an improper payment estimate for the Temporary Assistance for Needy Families (TANF) program;\(^6\)
- did not establish improper payment target rates for Children’s Health Insurance Program (CHIP) or for TANF as required,
- did not meet the improper payment rate reduction targets for Medicare Fee-for-Service (FFS) and the Medicare Prescription Drug Benefit programs, and
- reported an improper payment rate of greater than 10 percent for Medicare FFS.

Because TANF did not report all of the information required by the IPIA on the nature and extent of improper payments, we could not assess the accuracy or completeness of TANF data.

We recommended that the Department address these issues. Several of these issues have been outstanding since OIG was required to evaluate improper payment reporting beginning with the FY 2011 AFR.\(^7\) Table 3 in Appendix C provides the current status of our all prior years’ recommendations.

HOW WE CONDUCTED THIS REVIEW

Our review covered the IPIA and the DRAA information that was reported in the “Other Information” section of the Department’s FY 2014 AFR. The Department included information on the following eight programs that were deemed by OMB to be susceptible to significant improper payments: Medicare FFS, Medicare Advantage, Medicare Prescription Drug Benefit, Medicaid, CHIP, TANF, Foster Care, and Child Care Development Fund (CCDF). It also included information on the seven programs that received funding under the DRAA.

To determine whether the Department complied with the IPIA and whether it had made progress on recommendations included in our previous reports on improper payments, we:

- reviewed improper payment information reported in the FY 2014 AFR,

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\(^6\) According to the Department, statutory limitations prevented it from requiring States to participate in a TANF improper payment measurement. The Department has reported this limitation each year since OIG was required to evaluate improper payments reporting starting with the FY 2011 AFR.

\(^7\) We have consistently reported noncompliance issues for the TANF program and CHIP in each of our reports on the Department’s compliance with IPIA that cover FYs 2011, 2012, and 2013. We reported the Medicare FFS noncompliance issue in our reports that cover FY 2012 and FY 2013.
obtained and analyzed information from the Department on the eight programs deemed susceptible to significant improper payments, and

interviewed Department staff to obtain an understanding of the processes and events related to determining improper payments.

We also reviewed the information reported by the Department on seven programs deemed susceptible to significant improper payments under the DRAA: Administration for Children and Families (ACF) Head Start; ACF Social Services Block Grant; ACF Family Violence Prevention and Services; Assistant Secretary for Preparedness and Response (ASPR) Research; Centers for Disease Control and Prevention (CDC) Research; Substance Abuse and Mental Health Services Administration (SAMHSA) Grants; and the National Institutes of Health (NIH) Research Grants.

For high-priority programs, we followed OMB guidance, which requires that we evaluate the assessed level of risk and quality of the improper payment estimates and methodology for those programs. We discussed the risk assessments and methodologies with Department officials. We reviewed key processes and steps used to estimate improper payments for the high priority programs. In addition, we asked program officials about the methodology for determining the estimated error rate targets for the subsequent 3 years for the high-priority programs.

We compared the FY 2013 and FY 2014 amounts reported as identified and recaptured and analyzed the improper payment trends for six programs from FY 2011 through FY 2014. To assess the accuracy and completeness of the Department’s reporting, we reviewed the documentation and related information provided by the Department to support the balances, amounts, and percentages reported in the FY 2014 AFR.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B contains the details of our audit scope and methodology.

FINDINGS

Although the Department met many IPIA requirements and other OMB reporting requirements, it did not fully comply with the IPIA. As required, the Department:

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8 Refers to the approximately $747 million in Disaster Relief Funding allocated among multiple programs to provide services related to spending in accordance with the requirements under the DRAA. Specifically, these funds were used to provide housing assistance, to evaluate preparedness and response, to perform environmental studies, and to research facilities damaged or destroyed by Superstorm Sandy in October 2012.
• published an AFR for FY 2014 and posted that report and accompanying material required by OMB on the Department’s Web site,

• conducted a program-specific risk assessment of five programs that were not deemed susceptible to significant improper payments by OMB as part of an ongoing 3-year cycle to identify those programs or activities that might have been susceptible to significant improper payments,

• published improper payment estimates for seven of the eight programs that OMB deemed to be susceptible to significant improper payments and all seven programs deemed susceptible to significant improper payments under the DRAA,

• published CAPs for seven of the eight programs that OMB deemed to be susceptible to significant improper payments and all seven programs deemed susceptible to significant improper payments under the DRAA,

• published and met annual reduction targets for two of the six programs for which it reported reduction targets in the FY 2013 AFR, and

• reported an improper payment rate of less than 10 percent for six of the eight programs that OMB deemed to be susceptible to significant improper payments and five of the seven programs deemed susceptible to significant improper payments under the DRAA.

However, the Department did not fully comply with several IPIA requirements. Specifically the Department:

• did not perform risk assessments of payments to employees and charge card payments,

• did not publish an improper payment estimate for one of eight programs that OMB deemed to be susceptible to significant improper payments (TANF);

• did not publish CAPs for one of the eight programs that OMB deemed to be susceptible to significant improper payments (TANF);

• did not meet improper payment rate reduction targets for four of the six programs for which it reported reduction targets in the FY 2013 AFR (Medicare FFS, Medicaid, Foster Care, and CCDF); and

• did not report an improper payment rate of less than 10 percent for one of the eight programs deemed susceptible to improper payments by OMB (Medicare FFS) and two of

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9 The Department included corrective actions and mitigation plans for some DRAA programs that did not have improper payments.

10 The requirement to meet reduction targets would not apply to the seven programs deemed susceptible to significant improper payments under the DRAA.
the seven programs deemed susceptible to improper payments under the DRAA (ACF Social Services Block Grant and SAMHSA Grants).

The Department followed OMB’s guidance regarding additional risk assessments and methodologies used to estimate improper payments for the four programs designated as high-priority. These four high-priority programs were Medicare FFS, Medicare Advantage, Medicare Prescription Drug Benefit, and Medicaid.

The Department reported information on its efforts to recapture improper payments and the results of those actions. The Department reported that the Medicare FFS recovery auditors collected $2.4 billion in FY 2014, compared with $3.7 billion for FY 2013. The Department noted that the primary reason for the decrease was the cessation in Recovery Audit Contractor (RAC) activities due to the delay in awarding new Medicare FFS RAC contracts.

THE DEPARTMENT MET MANY REQUIREMENTS OF THE IMPROPER PAYMENTS INFORMATION ACT OF 2002 AND OFFICE OF MANAGEMENT AND BUDGET REPORTING GUIDANCE

The Department Complied With the Requirement To Publish and Post the Agency Financial Report

The Department published an AFR for FY 2014, dated November 13, 2014, and posted that report and accompanying material on its Web site as required by OMB, in compliance with the IPIA.

The AFR included management’s discussion of the Department’s programs, the Department’s audited financial statements, and other information.

The Department Complied With the Requirement To Perform Risk Assessments of Department Programs

The Department, in compliance with the IPIA, conducted a program-specific risk assessment of five programs that were not deemed susceptible to significant improper payments by OMB to identify those programs or activities that might have been susceptible to significant improper payments. This current risk assessment was part of an ongoing 3-year cycle to assess the risk in such programs. We found in our prior two compliance reports that the Department had assessed 65 programs.

The Department Published Improper Payment Estimates for Seven of Eight Programs That OMB Deemed Susceptible to Significant Improper Payments and All Seven Programs Deemed Susceptible To Significant Improper Payments Under the DRAA

The Department published improper payment estimates in compliance with the IPIA for the following seven risk-susceptible programs: Medicare FFS, Medicare Advantage, Medicare Prescription Drug Benefit, Medicaid, CHIP, Foster Care, and CCDF. As required by the DRAA, the Department also reported improper payment estimates for ACF Head Start, ACF Social Services
Block Grant, ACF Family Violence Prevention and Services, ASPR Research, CDC Research, SAMHSA Grants, and NIH Research Grants. (Appendix C provides information on the rates and amounts for estimated FY 2014 improper payments.\textsuperscript{11})

### The Department Published Corrective Action Plans for Seven of Eight Programs That OMB Deemed To Be Susceptible To Significant Improper Payments and All Seven Programs Deemed Susceptible To Significant Improper Payments Under the DRAA

As required by the IPIA, the Department published CAPs for seven of eight programs: Medicare FFS, Medicare Advantage, Medicare Prescription Drug Benefit, Medicaid, CHIP, Foster Care, and CCDF. The Department also published CAPs for the following programs that received DRAA funding: ACF Head Start, ACF Social Services Block Grant, ACF Family Violence Prevention and Services, ASPR Research, CDC Research, SAMHSA Grants, and NIH Research Grants. For those DRAA programs that did not report improper payments, the Department still included actions that are aimed at mitigating potential future improper payments.

### The Department Published and Met Annual Reduction Targets for Two of Six Programs for Which It Reported Reduction Targets in the Fiscal Year 2013 Agency Financial Report

The Department reported two programs that met their improper payment reduction targets: Medicare Advantage and Medicare Prescription Drug Benefit program. As reported in the FY 2014 AFR, Medicare Advantage achieved an improper payment rate of 9 percent, which met its planned target rate.\textsuperscript{12} Also, the Department reported for the Medicare Prescription Drug Benefit program a gross improper payment rate of 3.3 percent, which was less than the target improper payment rate of 3.6 percent for FY 2014. The requirement to meet reduction targets would not apply to the seven programs deemed susceptible to significant improper payments under the DRAA. Because it is the first year for reporting improper payment estimates for these programs, targets could not have been established in a prior year to be met this year.

Table 1 in Appendix C summarizes the Department’s performance in meeting improper payment rate targets for FY 2014.

\textsuperscript{11} According to the Department, DRAA funds should be obligated during FY 2015, and the corresponding outlays are expected to be completed between FY 2015 and FY 2018. The seven DRAA programs reported improper payment rates ranging from zero percent to 13.5 percent.

\textsuperscript{12} A program will have met a reduction target if the improper payment rate for that program in the current year falls within plus or minus 0.1 percentage points of the reduction target set in the previous year’s AFR (OMB Circular A-123, Appendix C, § II.A.3, fn. 13). Because the Medicare Advantage program had a target of 9 percent and achieved that target, it is considered in compliance with this requirement.
The Department Reported an Improper Payment Rate of Less Than 10 Percent for Six of Eight Programs That OMB Deemed To Be Susceptible to Significant Improper Payments and Five of Seven Programs Deemed Susceptible to Significant Improper Payments Under the DRAA

The Department reported that six of the seven programs for which the Department reported a gross improper payment rate in FY 2014 achieved an improper payment rate of less than 10 percent. These six programs were Medicare Advantage, Medicare Prescription Drug Benefit, Medicaid, CHIP, Foster Care, and CCDF. DRAA programs that had an improper payment rate of under 10 percent were ACF Head Start; ACF Family Violence Prevention and Services; ASPR Research; CDC Prevention Research; and NIH Research Grants.

Table 2 in Appendix C summarizes the Department’s performance in achieving gross improper payment rates of less than 10 percent.

THE DEPARTMENT DID NOT COMPLY WITH SEVERAL REQUIREMENTS OF THE IMPROPER PAYMENTS INFORMATION ACT OF 2002

The Department Did Not Perform Risk Assessments of Payments to Employees and Charge Card Payments

The Department did not perform a risk assessment of payments to employees and charge card payments as required by IPERIA. According to the Department, payments to employees and payments related to charge cards were not included among the programs that received risk assessments for FY 2014 because the final version of Appendix C to OMB Circular A-123 was released in October 2014. The Department is examining the changes to required reporting under the OMB revised guidance and determining how to incorporate these changes into future risk assessments.

The Department Did Not Publish an Improper Payment Estimate for One of Eight Programs That OMB Deemed To Be Susceptible to Significant Improper Payments

The Department did not report an improper payment estimate for TANF. The Department stated in its FY 2014 AFR that it did not report an improper payment estimate for TANF because it is a State-administered program and statutory limitations prohibit the Department from requiring States to participate in a TANF improper payment measurement. The IPIA requires Federal agencies to review all of their programs to identify those that may be susceptible to significant improper payments. OMB has designated TANF as a Federal program susceptible to significant improper payments. Accordingly, the Department is required to estimate and report improper payments for TANF.

In our FY 2011 report, we recommended that the Department take steps to develop improper payment estimates for TANF. In both its FY 2012 and FY 2013 AFRs, the Department did not report an improper payment estimate for TANF. Because the Department did not report an

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13 The Department did not report an improper payment rate for TANF.
estimate of improper payments for TANF, the Department did not meet the other IPIA requirements for TANF.

**The Department Did Not Publish a Corrective Action Plan as Required for One of the Eight Programs That OMB Deemed To Be Susceptible to Significant Improper Payments**

Although it did not establish an error rate for TANF, the Department did publish a series of actions the States could take to assist the States in reducing improper payments for TANF. However, the Department did not conduct a root-cause analysis on the improper payments. Because the action items were not based on identified root causes of improper payments in the TANF program, they may not have been effective in reducing improper payments.

**The Department Did Not Meet Improper Payment Rate Reduction Targets for Four of Six Programs for Which It Reported Reduction Targets in the Fiscal Year 2013 Agency Financial Report**

Medicare FFS, Medicaid, Foster Care, and CCDF did not meet their improper payment rate reduction targets for FY 2014. For Medicare FFS, the Department reported an improper payment rate (12.7 percent) that exceeded the target rate (9.9 percent). Department officials noted that since the implementation of the face-to-face requirements in April 2011, the provider community has had difficulty complying with the documentation requirements and documentation errors have contributed to the increase in the improper payment rate for the Medicare FFS program. The Department has reported a number of new and ongoing corrective actions, including some that were expected to be implemented early in FY 2015. According to Department officials, the Department believes that these efforts will lower the error rate as they become integrated into business operations. The Department revised its Medicare FFS improper payment error rate targets to 12.5 percent for FY 2015 and to 11.5 percent for FY 2016, and it established a target of 8.5 percent for FY 2017.

For Medicaid, the Department’s reported improper payment rate (6.7 percent) exceeded its target rate (5.6 percent). According to the Department, the primary reason for the higher rate was verification errors, which were the result of State claims processing systems not being fully compliant with new requirements. The Department has revised its Medicaid improper payment error rate targets to 6.7 percent for FY 2015 and to 6.4 percent for FY 2016, and it has established a target of 6.2 percent for FY 2017.

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14 As noted in our compliance report last year, the Department did not publish reduction targets for CHIP and TANF. Accordingly, determining whether the Department met reduction targets for these programs for FY 2014 was impossible.

15 Section 6407 of The Patient Protection and Affordable Care Act requires that, as a condition of payment, before certifying a patient’s eligibility for the Medicare home health benefit, the physician must document that the physician had a face-to-face encounter with the patient.

16 State-administered programs, such as Medicaid, CHIP, Foster Care, and CCDF, measure improper payments, at the State level, over a 3-year period. Each year, one-third of the States report current improper payment information that is used in developing the improper payment estimate. Generally, over a 3-year period, all the States and the District of Columbia have been measured for improper payments once.
For the Foster Care program, the reported rate (5.5 percent) exceeded the target rate (5.1 percent). The Department indicated the primary reason that the Foster Care program did not meet its target rate was the performance of three large States that were reviewed in this cycle. Two of these States reported a 2 to 3 percent increase in their error rate estimates, and the third State maintained an error rate above 10 percent. Specifically, administrative and documentation errors occurred due to incorrect case classification and incorrect payment processing by State agencies. The Foster Care program has revised its target rate to 5.3 percent for FY 2015 and to 5.1 percent for FY 2016, and it has established a target rate of 4.9 percent for FY 2017.

For the CCDF program, the Department’s reported improper payment rate (5.7 percent) exceeded the target rate (5.0 percent). The CCDF did not meet its target rate, although it revised the methodology used to measure improper payments for the States measured in this cycle. Previously, the States measured improper authorizations for payment. On the basis of an evaluation of the previous methodology, the Department determined that “improper authorizations for payment” was not a sufficient proxy for “improper payment.” The revised methodology enabled States to assess the accuracy of payments made as a result of child care eligibility determinations, rather than authorizations for services. The Department noted that its improper payment estimate for the CCDF program decreased in FY 2014 from 5.9 percent to 5.7 percent and attributed this to States implementing steps to improve their programs and reduce errors, including revising policies, expanding staff training, and enhancing information systems. The CCDF program revised its improper payment target rates to 5.6 percent for FY 2015 and 5.4 percent for FY 2016, and it has established a target rate of 5.2 percent for FY 2017.

The Department Did Not Report an Improper Payment Rate of Less Than 10 Percent for Medicare Fee-for-Service, ACF Social Services Block Grant, and SAMHSA Grants

The Medicare FFS program and the ACF Social Services Block Grant and SAMHSA Grants funded under the DRAA did not report an error rate of less than 10 percent. (See Table 2 in Appendix C.) The Department reported that the Medicare FFS rate increased from 10.1 percent in FY 2013 to 12.7 percent in FY 2014. As previously discussed, the Department attributed this increase to the difficulty the provider community has had complying with face-to-face documentation requirements for certain Medicare FFS services.

According to Department officials, the Department anticipates that its focused corrective actions for the Medicare FFS program will lead to significant reductions in improper payments as they become integrated into business operations. The Department’s target improper payment rate for this program is 12.5 percent for FY 2015 and 11.5 percent for FY 2016 and 8.5 percent for FY 2017. The Department has also identified a statutory barrier that could limit the Medicare FFS corrective actions. The Department stated that current law limits its authority to conduct prior authorizations on services that account for a large portion of the overall improper payments. The President’s FY 2015 Budget proposed to amend section 1893 of the Social Security Act to give the Secretary the discretion to select items or services for prior authorization without rulemaking in cases in which the items or services involve high cost, high utilization, patient risk, high improper payment, or all of them.
For the ACF Social Services Block Grant under the DRAA, the Department reported an improper payment estimate of 13.5 percent for the amount of approximately $9 million. The Department indicated all of the improper payments resulted from administrative and documentation errors identified in payment processing or recipient eligibility. The Department is still working to determine actions to recover actual improper payments.

For SAMHSA Grants funded under the DRAA, the Department reported an improper payment estimate of 12.7 percent for the amount of almost $53,000. The Department stated approximately $43,000 was caused by errors in calculation of direct and indirect expenses and was recovered. The Department noted that it reclassified the remaining amount to the correct grant.


Inspectors General must report on agency compliance with the IPIA (IPERA and OMB Circular A-123). If an agency is determined by an Inspector General not to be in compliance with the IPIA for 3 consecutive FYs for the same program or activity, the head of the agency must, not later than 30 days after the determination, submit to Congress either reauthorization proposals for each program or activity that has not been in compliance for 3 or more consecutive FYs or proposed statutory changes necessary to bring the program or activity into compliance. We identified noncompliance in TANF (no estimate of improper payments and failure to meet other IPIA requirements) for 4 consecutive years and Medicare FFS (failure to meet annual reduction targets) for 3 consecutive years. For FYs 2012, 2013, and 2014, the Department had improper payment target rates for the Medicare FFS program of 5.4 percent, 8.3 percent, and 9.9 percent and reported improper payment rates of 8.5 percent, 10.1 percent and 12.7 percent, respectively. The Department said it has submitted legislative proposals to Congress for TANF.

THE DEPARTMENT’S ASSESSMENT OF THE LEVEL OF RISK AND THE QUALITY OF THE IMPROPER PAYMENT ESTIMATES AND METHODOLOGY FOR HIGH-PRIORITY PROGRAMS

High-Priority Programs

High-priority programs have more than $750 million in improper payments (OMB, Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments (Figure 1)). The Department has four programs that meet this definition for FY 2014: Medicare FFS, Medicare Advantage, Medicare Prescription Drug Benefit program, and Medicaid. OMB’s guidance requires Department Inspectors General to evaluate the agency’s assessment of the level of risk and the quality of the improper payment estimates and methodology.

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17 IPERA, section 3(c)(3).
Additional Risk Assessment Requirements Met

The Department followed OMB’s guidance, which states “programs that have been determined to be susceptible to significant improper payments and that are already reporting an estimate—or in the process of establishing an estimate—do not have to perform additional risk assessments” (OMB Circular A-123, § I.A.10). Accordingly, the Department does not conduct additional risk assessments for high-priority programs.

Quality of the Improper Payment Estimates and Methodology for High-Priority Programs

In general, the methodologies used by the Department to estimate improper payments were reasonable and valid and resulted in reasonable estimates. However, we identified an opportunity to further refine the methodology used to estimate the improper payments for the Medicare Prescription Drug Benefit program. Specifically, we identified a technical issue with how CMS calculated the accuracy of the improper payment estimate for this program. The calculation error was not material, and the estimate met statutory requirements. Accordingly, we plan to convey the refinements to the Department for its consideration outside of this report.

THE DEPARTMENT’S PERFORMANCE IN REDUCING AND RECAPTURING IMPROPER PAYMENTS

Changes in the Estimated Rates of Improper Payments

The Department has reported mixed results in reducing the estimated improper payments rates. Improper payment rates for three programs, Medicare Advantage, Medicare Prescription Drug Benefit, and CCDF, have generally trended downward over the last 4 years. The rates for two programs, Medicaid and Foster Care, increased in FY 2014. The improper payment rate for the Medicare FFS program has been trending upwards since FY 2012. Figure 1 shows the trends for these six programs from FY 2011 through FY 2014. We did not include the CHIP or TANF programs in the figure because the CHIP program had just established its baseline and the TANF program did not have an improper payment rate.
Recapture of Improper Payments

The Department reported information on its actions to recapture improper payments and the results of those actions. The Department reported that the Medicare FFS recovery auditors collected $2.4 billion in FY 2014, compared with $3.7 billion for FY 2013. The Department noted that the primary reason for the decrease was the cessation in Recovery Audit Contractor (RAC) activities due to the delay in awarding new Medicare FFS RAC contracts. In addition to recoveries reported by the Department for RAC activities, overpayment recoveries by the Medicare FFS Medicare Administrative Contractors (MACs) dropped from approximately $12.6 billion in FY 2013 to $10.8 billion in FY 2014. The Foster Care program reported an increase from FY 2013 to FY 2014 ($30.4 million FY 2014 compared to $1.5 million FY 2013) in amounts recovered.

Accuracy and Completeness of Reporting

For seven of the eight programs deemed susceptible to significant improper payments and the seven programs or activities that received funding under the DRAA, we did not identify any issues with the accuracy or completeness of the information that the Department reported. But as discussed in prior sections, the Department reported incomplete information for the high-risk TANF program.

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OMB granted the Department relief from the improper payment reporting requirements for Head Start in September 2013 because the program no longer met the threshold to qualify as being susceptible to significant improper payments. However, the Department continued to report payment recapture information for Head Start in the FY 2014 AFR.
RECOMMENDATIONS

The Department has not addressed all of our recommendations from prior years. Table 3 in Appendix C identifies the recommendations made in our previous reports and the current status of each. The Department has addressed some of these recommendations, but other recommendations remain open. For example, the Medicare FFS program did not meet its target rate in FYs 2012, 2013, and now 2014. We recommended the Department take actions to ensure the Medicare FFS program meets its established target rates. This recommendation remains open.

We also continue to recommend that the Department develop and establish an improper payment estimate for the TANF program, and that recommendation remains open. We first made this recommendation in the FY 2011 reporting of improper payments. We have emphasized the importance of this issue by highlighting it in our annual Compendium of Unimplemented Recommendations. We also have recommendations that were not fully closed to reduce improper payment rates to below 10 percent for various programs and achieve their established improper payment target rates. Addressing these recommendations would improve the Department’s compliance with IPIA, including compliance issues identified in our current and prior-year findings. We will continue to follow up until these recommendations are resolved and reiterate the need to take action on these issues.

To address a new requirement under OMB’s guidance, we recommend that the Department conduct risk assessments of payments to employees and charge card payments as part of its risk assessment process for 2015.

DEPARTMENT COMMENTS

In its comments on our draft report, the Department provided information on the status of actions it has taken in response to our previous recommendations. In addition, the Department advised us that it is currently reviewing new requirements and other guidance to determine how to perform risk assessments for payments to employees and charge card payments.

The Department’s comments, excluding technical comments (which we addressed appropriately), are included in Appendix D.

OFFICE OF INSPECTOR GENERAL RESPONSE

We appreciate the actions that the Department has taken and plans to take to ensure compliance with the IPIA and to reduce improper payments. With regard to the finding that the Department did not perform risk assessments for payments to employees and charge cards payments, we acknowledge OMB did not provide updated guidance until October 2014. IPERIA and OMB guidance, however, specifically required the Department to perform risk assessments of these activities for FY 2014.

19 The OIG’s Compendium of Unimplemented Recommendations (March 2015) can be found at: http://oig.hhs.gov/reports-and-publications/compendium/index.asp.
## APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

<table>
<thead>
<tr>
<th>Report Title</th>
<th>Report Number</th>
<th>Issue Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare Claims Administration Contractors’ Error Rate Reduction Plans</td>
<td>OEI-09-12-00090</td>
<td>Jan 2014</td>
</tr>
<tr>
<td>U.S. Department of Health and Human Services Did Not Fully Comply With Federal Requirements for Reporting Improper Payments</td>
<td>A-17-12-52000</td>
<td>Mar 2012</td>
</tr>
<tr>
<td>Oversight and Evaluation of the Fiscal Year 2007 Payment Error Rate Measurement Program</td>
<td>A-06-08-00078</td>
<td>May 2010</td>
</tr>
<tr>
<td>Oversight and Evaluation of the Fiscal Year 2006 Medicaid Fee-for-Service Payment Error Rate Measurement Program</td>
<td>A-06-07-00114</td>
<td>Jan 2009</td>
</tr>
</tbody>
</table>
APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

Our review covered the IPIA and DRAA information that was reported in the “Other Information” section of the Department’s FY 2014 AFR. The Department included information on the following eight programs that were deemed by OMB to be susceptible to significant improper payments: Medicare FFS, Medicare Advantage, Medicare Prescription Drug Benefit, Medicaid, CHIP, TANF, Foster Care, and CCDF. In addition and as required by the DRAA, the Department included information on seven programs that received Superstorm Sandy funds.

We performed our fieldwork from November 2014 through April 2015.

METHODOLOGY

To determine whether the Department complied with the IPIA and whether it had made progress on recommendations included in our report on the Department’s FY 2013 AFR, we:

- reviewed applicable Federal laws and OMB circulars;
- reviewed improper payment information reported in the FY 2014 AFR;
- obtained and analyzed other information from the Department on the eight programs deemed susceptible to significant improper payments; and
- interviewed Department, State, and MAC staff to obtain an understanding of the processes and events related to determining improper payment rates.

To evaluate the assessed level of risk and the quality and methodology of improper payment estimates for high-priority programs, we:

- asked Department officials about the process for assessing the level of risk for the high-priority programs and confirmed the Department’s approach within the context of OMB’s guidance,
- made inquiries to Department officials about the quality of the of the improper payment estimates and methodology for the high-priority programs,
- reviewed key processes and steps used to estimate improper payments in high-priority programs, and
- asked program officials about the methodology for determining the estimated error rate targets for the subsequent 3 years for the high-priority programs.

To assess the Department’s performance in reducing and recapturing improper payments, including accuracy and completeness, we:
• reviewed documentation provided by the Department on its corrective actions to reduce improper payments and

• reviewed the documentation and related information provided by the Department to support the balances, amounts, percentages, and ratios reported in the FY 2014 AFR.

We discussed the results of our work with the Department and received written comments on this report’s recommendations.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
## Table 1: Fiscal Year 2014 Improper Payment Rates and Targets

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 2014 Target Rate</th>
<th>FY 2014 Reported Estimated Rates</th>
<th>Met Target Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare FFS</td>
<td>9.9</td>
<td>12.7</td>
<td>No</td>
</tr>
<tr>
<td>Medicare Advantage</td>
<td>9.0</td>
<td>9.0</td>
<td>Yes</td>
</tr>
<tr>
<td>Medicare Prescription Drug Benefit</td>
<td>3.6</td>
<td>3.3</td>
<td>Yes</td>
</tr>
<tr>
<td>Medicaid</td>
<td>5.6</td>
<td>6.7</td>
<td>No</td>
</tr>
<tr>
<td>CHIP</td>
<td>--</td>
<td>6.5</td>
<td>--</td>
</tr>
<tr>
<td>Foster Care</td>
<td>5.1</td>
<td>5.5</td>
<td>No</td>
</tr>
<tr>
<td>TANF</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>CCDF</td>
<td>5.0</td>
<td>5.7</td>
<td>No</td>
</tr>
</tbody>
</table>

Sources: The FY 2014 target rate is from Table 1, “Improper Payment Reduction Outlook,” in the Department’s AFR for FY 2013. The FY 2014 reported rate was provided by Table 1, “Improper Payment Reduction Outlook,” in the Department’s AFR for FY 2014.

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20 Beginning with FY 2014, the Department completed the baseline measurement, as well as established and reported target rates in the AFR for CHIP, on the basis of the measurement of 50 States and the District of Columbia over a 3-year period. The Department did not report a target rate while a baseline was being developed.

21 We could not evaluate whether CHIP or TANF met their target rate because no target rate was established.

22 The Department expressed no reason for not publishing a FY 2014 target rate in its FY 2013 AFR for TANF (the Department’s FY 2013 AFR, Table 1).

23 The Department stated in the FY 2014 AFR that TANF did not report an error rate for FY 2014 because of statutory limitations (the Department’s FY 2014 AFR, Table 1, note 5).
Table 2: Assessment of Achieving Fiscal Year 2014
Gross Improper Payment Rate of Less Than 10 Percent

<table>
<thead>
<tr>
<th>Program</th>
<th>Improper Payment Estimated, Rates 2014</th>
<th>Met Gross Improper Payment Target Rate of Less Than 10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare FFS</td>
<td>12.7</td>
<td>No</td>
</tr>
<tr>
<td>Medicare Advantage</td>
<td>9.0</td>
<td>Yes</td>
</tr>
<tr>
<td>Medicare Prescription Drug Benefit</td>
<td>3.3</td>
<td>Yes</td>
</tr>
<tr>
<td>Medicaid</td>
<td>6.7</td>
<td>Yes</td>
</tr>
<tr>
<td>CHIP</td>
<td>6.5</td>
<td>Yes</td>
</tr>
<tr>
<td>Foster Care</td>
<td>5.5</td>
<td>Yes</td>
</tr>
<tr>
<td>TANF</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>CCDF</td>
<td>5.7</td>
<td>Yes</td>
</tr>
<tr>
<td>Superstorm Sandy Programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACF Head Start</td>
<td>0.0</td>
<td>Yes</td>
</tr>
<tr>
<td>ACF Social Services Block Grant</td>
<td>13.5</td>
<td>No</td>
</tr>
<tr>
<td>ACF Family Violence Prevention and Services</td>
<td>4.4</td>
<td>Yes</td>
</tr>
<tr>
<td>ASPR Research</td>
<td>0.0</td>
<td>Yes</td>
</tr>
<tr>
<td>CDC Research</td>
<td>0.0</td>
<td>Yes</td>
</tr>
<tr>
<td>SAMHSA</td>
<td>12.7</td>
<td>No</td>
</tr>
<tr>
<td>NIH Research</td>
<td>0.002</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Sources: The estimated rate is from the Department’s AFR FY 2014, Table 1, “Improper Payment Reduction Outlook,” and Table 8, “Improper Payment Reporting for Superstorm Sandy Programs.”

N/A: Not applicable because the programs without a rate in 2014 could not have a rate of less than 10 percent.
Table 3: Prior Year Recommendations and the Current Status of Each

<table>
<thead>
<tr>
<th>Report Number</th>
<th>FY</th>
<th>Recommendation</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>A-17-12-52000</td>
<td>2011</td>
<td>1. Develop an improper payment estimate for the TANF program, and seek statutory authority to require State participation in such measurement</td>
<td>Open—The TANF program is not reporting an improper payment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Address payment errors in the Medicare Advantage and CCDF programs and reduce their improper payment error rates below 10 percent</td>
<td>Closed—Both programs were below 10 percent in FY 2014</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Produce a CHIP error rate for FY 2012</td>
<td>Closed—CHIP has been reporting an improper payment estimate since FY 2012</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Maintain sufficient documentation to support the amounts reported in the AFR related to recapturing improper payments</td>
<td>Closed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Determine the feasibility of developing an estimate to adjust the Medicare FFS Recovery Audit rate similar to the estimate used to adjust the FFS improper payment rate</td>
<td>Closed—The measurement period was moved back 6 months to allow time for appeals</td>
</tr>
<tr>
<td>A-17-13-52000</td>
<td>2012</td>
<td>1. Develop an improper payment estimate for the TANF program and seek statutory authority to require State participation in that measurement</td>
<td>Open—The TANF program is not reporting an improper payment estimate or a corrective action plan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Develop and report improper payment rate reduction targets and CAPs for CHIP</td>
<td>Closed—CHIP has been reporting an improper payment estimate since FY 2012 and a CAP since FY 2013</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Assess the need for additional actions to meet improper payment rate reduction targets</td>
<td>Partially closed—Only the Medicare Advantage program met its improper payment target in FY 2014</td>
</tr>
<tr>
<td></td>
<td></td>
<td>4. Reduce improper payment rates to below 10 percent</td>
<td>Partially closed—Medicare Advantage reported an improper payment estimate of 9 percent in FY 2014</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5. Ensure that amounts used in the computation for reporting overpayments are accurate and complete</td>
<td>Closed</td>
</tr>
<tr>
<td></td>
<td></td>
<td>6. Ensure data are retained in accordance with program requirements</td>
<td>Closed</td>
</tr>
<tr>
<td>A-17-14-52000</td>
<td>2013</td>
<td>1. Develop an improper payment estimate for the TANF program and seek statutory authority to require State participation in such measurement</td>
<td>Open</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Assess the need for additional actions to meet improper payment rate reduction target (carry over from prior year)</td>
<td>Partially closed—Only the Medicare Prescription Drug Benefit program met its improper payment target in FY 2014</td>
</tr>
</tbody>
</table>
Table 4: Supplemental Information on the Department Programs Susceptible to Significant Improper Payments

<table>
<thead>
<tr>
<th>Programs</th>
<th>Improper Payment Estimate Dollars (in Millions)</th>
<th>Improper Payment Estimated Rate %, Gross</th>
<th>OMB Circ. A-123 Appendix C</th>
<th>DRAA</th>
<th>Superstorm Sandy</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Susceptible to Significant Improper Payments (Meets High Priority Improper Payments &gt;$750M)</td>
<td>Susceptible to Significant Improper Payments (Meets $10M &amp; 1.5% or $100M)</td>
<td></td>
</tr>
<tr>
<td>Medicare FFS</td>
<td>$45,754</td>
<td>12.7</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
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<tr>
<td>Medicare Advantage</td>
<td>12,229</td>
<td>9.0</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Medicare Prescription Drug Benefit</td>
<td>1,931</td>
<td>3.3</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Medicaid</td>
<td>17,492</td>
<td>6.7</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
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<tr>
<td>CHIP</td>
<td>612</td>
<td>6.5</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
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<tr>
<td>TANF</td>
<td>N/A</td>
<td>N/A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foster Care</td>
<td>66.2</td>
<td>5.5</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CCDF</td>
<td>299</td>
<td>5.7</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ACF Head Start</td>
<td>0</td>
<td>0.0</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>ACF Social Services Block Grant</td>
<td>9</td>
<td>13.5</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>ACF Family Violence Prevention and Services</td>
<td>*</td>
<td>4.4</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>ASPR Research</td>
<td>0</td>
<td>0.0</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>CDC Research</td>
<td>0</td>
<td>0.0</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>SAMHSA</td>
<td>*</td>
<td>12.7</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>NIH Research</td>
<td>*</td>
<td>0.002</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>

*The amount of improper payments for the following programs was less than $1 million: ACF Family Violence—$6,013, SAMHSA—$52,735, and NIH Research—$741.

Sources: The Department, AFR FY 2014, Table 1, “Improper Payment Reduction Outlook,” and Table 8, “Improper Payment Reporting for Superstorm Sandy Programs”; OMB Circular A-123, Appendix C, Requirements for Effective Estimation and Remediation of Improper Payments, October 20, 2014.
APPENDIX D: DEPARTMENT COMMENTS

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330 Independence Ave, S.W.
Washington, D.C. 20201

Dear Mr. Levinson:

Thank you for the opportunity to review the Office of Inspector General’s draft report “U.S. Department of Health and Human Services Met Many Requirements of the Improper Payments Information Act of 2002 but Did Not Fully Comply for Fiscal Year 2014” (A-17-15-52000). The Department of Health and Human Services (HHS) takes its responsibility for meeting the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA) seriously. As requested, this letter includes information on the status of actions we are taking in response to one new recommendation and three recommendations from previous reports that remain open. In addition, our technical comments are attached for your consideration.

Recommendation #1: The Department should “develop an improper payment estimate for the Temporary Assistance for Needy Families Program and, if necessary, seek statutory authority to require State participation in such a measure.”

HHS Response: As noted in HHS’ Fiscal Year (FY) 2014 Agency Financial Report (AFR), statutory limitations prohibit the Department from requiring States to participate in, calculate, or report a Temporary Assistance for Needy Families (TANF) program error rate. When legislation is considered to reauthorize TANF, we want to work with Congress to address a set of issues related to accountability and how funds are used, and to craft statutory changes that would allow for reliable error rate measurement. In the meantime, the Department is engaging with OMB to explore potential options to develop an alternative approach that could bring TANF into compliance with IPERA and meet reporting requirements. Lastly, in compliance with IPERA, HHS submitted legislative proposals to Congress in 2014, and continues to work with States on reducing improper payments in the TANF program.

Recommendation #2: The Department should “reduce improper payment error rates below 10 percent in all IPRA programs.”

HHS Response: HHS is committed to reducing all program error rates below the 10 percent threshold, and has made progress in recent years. As the draft report notes, in FY 2014, six of the seven programs that OMB deemed susceptible to significant improper payments and five of the seven programs deemed susceptible to significant improper payments under the Disaster...
Relief Appropriations Act (DRAA) reported error rates below the 10 percent level. HHS has taken, and continues to take, a number of actions, outlined in the FY 2014 AFR (please see http://www.hhs.gov/afr/ for HHS' AFR, released November 13, 2014) to reduce error rates in all of its programs. We believe these actions will allow HHS to achieve compliance with the 10 percent goal in the future.

Recommendation #3: The Department should "assess the need for additional actions to meet error rate reduction targets."

HHS Response: HHS is committed to meeting its error rate reduction targets. As the draft report notes, in FY 2014, two programs met the reduction targets that were published in the FY 2013 AFR, but four programs did not meet the targets. HHS sets aggressive reduction targets in an effort to drive improvement in payment accuracy levels. The downside of setting aggressive targets is that they may not always be met. As mentioned previously, HHS has taken a number of actions to reduce error rates in all its programs, including Medicare FFS, Medicaid, Foster Care, and Child Care. We believe these actions will allow HHS to achieve error rates at or below the established targets in the future.

Recommendation #4: The Department should "conduct risk assessments of payments to employees and charge card payments as part of its risk assessment process for 2015."

HHS Response: Prior to the passage of the Improper Payments Elimination and Recovery Improvement Act of 2012 and issuance of OMB's updated Appendix C to OMB Circular A-123 in October 2014, agencies were allowed to exclude payments to employees and charge card payments from their ongoing risk assessment process. The Department is currently reviewing the new requirement and other guidance (including Appendix B of OMB Circular A-123 and OMB Memorandum M-13-21 - Implementation of the Government Charge Card Abuse Prevention Act of 2012) and Departmental activities to determine how to meet this new requirement.

Thank you again for your ongoing efforts to assist the Department. We look forward to continuing to partner with your office to prevent and reduce improper payments.

Sincerely,

Ellen G. Murray
Assistant Secretary for Financial Resources