



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D. C. 20503

THE DIRECTOR

February 26, 2015

The Honorable Sylvia Mathews Burwell  
Secretary of Health and Human Services  
Washington, D.C. 20201

Dear Madam Secretary:

As you know, the Administration has made reducing improper payments—payments made to the wrong entity, in the wrong amount, or for the wrong reason—a key priority. Our partnership with the Department of Health and Human Services (HHS) over the years has been vital to these efforts. While some progress has been made on this front, we believe a more aggressive strategy can be implemented to reduce the levels of improper payments we are currently seeing.

HHS recently reported that, in Fiscal Year (FY) 2014, improper payments in the Medicare Fee-for Service program increased by 2.62 percentage points, representing an improper payment estimate that is \$9.7 billion higher than last year. In addition, the Medicaid program reported an improper payment amount that was \$3.1 billion higher than last year. While progress was made in FY 2014 with the Medicare Part C program, the \$12.2 billion improper payment amount remains a concern.

We must continue to explore new and innovative ways to address the problem and continue to attack this challenge with every tool at our disposal, including our recently revised Appendix C to OMB Circular No. A-123, *Requirements for Effective Estimation and Remediation of Improper Payments*. In addition, the FY 2015 enacted discretionary cap adjustment for Health Care Fraud and Abuse Control (HCFAC) activities provides a significant increase in funding to address program integrity vulnerabilities in Medicare and Medicaid.

OMB A-123, Appendix C provides guidance to agencies and Inspectors General on key improper payment activities, including risk assessments, estimating and reporting, recoveries, and compliance reviews. This new guidance presents an opportunity to re-examine improper payment reduction strategies on a number of fronts government-wide. By April 30, 2015, your Senior Accountable Official should:

- Review the new categories for reporting improper payments in Appendix C, fill out the matrix found on page 25 of Appendix C based on the FY 2014 estimate for Medicare Fee-for-Service, Medicaid, Medicare Part C, and Medicare Part D, and submit the completed matrix to OMB. While we are not requiring most agencies to complete this matrix until FY 2015 reporting, we believe it will be crucial for OMB to have this level of granularity for these select programs earlier to better inform a more effective strategy for reducing the Department's level of improper payments.

- Provide a comprehensive corrective action plan, which describes root causes and establishes critical path milestones to meet improper payment reduction targets. We look forward to working with the Department to align FY 2015 and 2016 HCFAC spend plans with a corrective action plan. In addition, the Department should answer the following questions for each of the four programs listed above:
  - Which current corrective actions are the most effective in reducing improper payments in the program?
  - What are the one or two actions that you are not already engaged in (but could realistically engage in) that would lead to a significant decrease in improper payments in the program?
  - What, if any, are the barriers preventing your agency from taking these actions, and what would it take to overcome those barriers?
  - If you implemented these actions, by how much could you reduce the improper payment rate in the program?
  - How has your agency advanced data analytics and improved technology to prevent and reduce improper payments?
  
- Develop plans to provide reasonable assurance that internal controls over improper payments are in place and are working. The primary purpose of these plans is to provide a thoughtful analysis linking agency efforts in establishing internal controls and reducing improper payment rates.

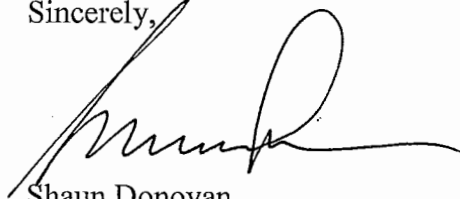
In addition, HHS should consider engaging your Inspector General to develop a Cooperative Audit Resolution and Oversight Initiative to obtain independent feedback and foster continuous improvement in program integrity and to develop interim measures to gauge progress.

Also, the integrity of the new Affordable Care Act (ACA) private health insurance programs is a key priority for the Administration. The Department of the Treasury (Treasury) and HHS each have responsibilities for ensuring payment accuracy in the ACA Marketplaces and related programs created under the ACA. In FY 2015, both Departments will begin to perform comprehensive risk assessments to determine areas that might affect payment accuracy. HHS and Treasury staff are actively engaged in developing plans for these risk assessments and we look forward to meeting with agency leadership in the near future. In the interim, both Departments have established internal controls to provide for effective program operations, reliable financial reporting, and compliance with laws and regulations.

As part of HHS' commitment to ACA Marketplace program integrity and in line with the Administration's goal to more aggressively improve payment accuracy, the Department's Senior Accountable Official should also submit a more detailed plan regarding its efforts to improve ACA Marketplace program integrity, by May 31, 2015.

We expect that, working together, our effort will keep up the fight to prevent and reduce improper payments. If you have questions concerning this request, please have your staff contact David Mader, Controller OMB at 202-395-3895.

Sincerely,

A handwritten signature in black ink, appearing to read 'Shaun Donovan', with a large loop at the end of the line.

Shaun Donovan  
Director