

CONGRESSIONAL TESTIMONY

Exposing the Woke, Wasteful, and Bloated Bureaucracy

Testimony before the

Budget Committee

U.S. House of Representatives

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My name is Rachel Greszler. I am a Senior Research Fellow in Economics, Budgets, and Entitlements at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

In my testimony today, I would like to discuss three issues involving improper payments, including recommended actions within each: 1) the amount of improper payments even as the federal government cracks down on taxpayers' potentially improper tax payments; 2) the lack of integrity and accountability causing improper payments; and 3) how improper federal spending and improper federal payments go hand-in-hand.

What Are Improper Payments and How Much Are They Costing Taxpayers?

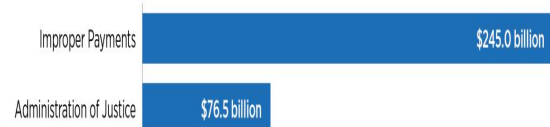
According to the White House's Office of Management and Budget (OMB), "An improper payment is a payment that should not have been made or that was made in the wrong

amount."ⁱ In 2022, the federal government issued \$245 billionⁱⁱ in improper and unknown payments.ⁱⁱⁱ This amounts to over \$1,800 per household in the U.S., and it means that taxpayers spent nearly one-third as much on improper payments as they did on national defense, and three times as much on improper payments as on the administration of justice.^{iv}

[Note: full-sized versions of all graphics are available in the appendix].

Improper Payments Eclipse Administration of Justice

Figures are from 2022.



SOURCES: PaymentAccuracy.gov, "Annual Improper Payments Database," 2022, <https://www.paymentaccuracy.gov/> (accessed May 2, 2023), and Congressional Budget Office, "Budget and Economic Data," "Spending Projections by Budget Account," May 2022, <https://www.cbo.gov/data/budget-economic-data#2> (accessed October 2, 2022).

The Government’s Double Standard on Improper Payments. The Inflation Reduction Act gives \$80 billion in additional funding to the Internal Revenue Service (IRS) to hire an additional 87,000 agents, with the hope of bringing in about \$200 billion in estimated missing tax revenues over the next 10 years. In 2022 alone, the federal government spent \$245 billion of taxpayers’ money on improper payments.^v And over the past 10 years, the federal government has spent \$1.96 trillion (in 2022, inflation-adjusted dollars) on improper payments.

It is one thing for taxpayers to make improper payments when navigating a 7,000-page tax code, but it is another for the federal government to send hundreds of billions of dollars to the wrong people and in the wrong amounts when carrying out the programs it designed and administers itself.

If taxpayers were to consistently and significantly underpay their taxes every year and refuse to pay what they owed, they could go to prison. And if a private health insurance company had to charge 20 percent more than its competitors for insurance because it regularly sent payments to the wrong providers and overpaid other providers, it would go out of business. But when the federal government spends hundreds of billions of dollars on improper payments, it receives reports that impose zero consequences and even more of taxpayers’ money the following year.

This double standard should not exist.

Improper Payments Understated. The federal government does not track all programs’ improper payments, and those that are tracked can be difficult to pin down. Consequently, actual improper payments are likely higher than reported.

For example, Obamacare subsidies are not included in the 2022 improper payment total at all.^{vi}

The Department of Labor is still trying to estimate improper payments in the most

problematic of the pandemic unemployment insurance programs—the Pandemic Unemployment Assistance (PUA).

Moreover, the Biden Administration has taken actions resulting in improper payments to private union pension plans. When Congress passed an unprecedented \$86 billion taxpayer bailout of select private union pension plans, it specified what interest rate must be used in calculating payments to the plan.^{vii} But after the Pension Benefit Guaranty Corporation (PBGC) issued rules including that specified interest rate, a group of Democrat Senators successfully pressured the PBGC to issue a revised rule that specifies different interest rates and allows plans to invest taxpayer dollars in riskier assets.^{viii} The CBO estimated that action will result in taxpayers paying an additional \$4.5 billion in arguably improper and illegal payments to select private union pension plans.

Biggest Sources of Improper Payments. Among the 73 non-defense programs included in the Office of Personnel Management’s (OPM’s) 2022 improper payments report, 17 had improper and unknown payment rates in excess of 10 percent in 2022, including all four of the IRS-administered programs.^{ix} Ten programs accounted for 75 percent, or \$183 billion of \$245 billion in total improper payments in 2022, including Medicaid, Federal–State Unemployment Insurance, three Medicare programs, the Earned Income Tax Credit (EITC), Children’s Health Insurance Program (CHIP), the Additional Child Tax Credit (ACTC), Supplemental Security Income (SSI), and the Supplemental Nutrition Assistance Program (SNAP).

The program with the single highest rate of improper payments, at 47.4 percent, is the Veterans Administration’s long-term services and supports purchases. The IRS’s American Opportunity Tax Credit (36.1 percent), EITC (31.6 percent), Refundable Premium Assistance Tax Credit (27.4 percent), and the Centers for Medicare and Medicaid Services

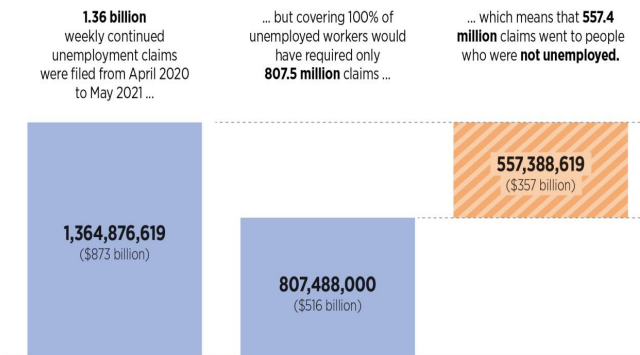
CHIP program (26.8 percent) all spent more than one-in-four of taxpayers’ dollars for their programs on improper payments.^x

The pandemic unemployment insurance programs demonstrate the epitome of taxpayer waste and unprecedented fraud. Congress’s rash enactment of multiple pandemic unemployment insurance programs that allowed nearly anyone to potentially qualify for super-sized unemployment insurance benefits, and which forced eligibility standards on the states that were virtually impossible to verify created the “perfect storm” for widescale criminal fraud and abuse. As one of the Department of Labor’s (DOL’s) initial IG reports explained:

[t]he unprecedented infusion of federal funds into the UI program gave individuals and organized criminal groups a high-value target to exploit. That, combined with easily attainable stolen personally identifiable information and continuing UI program weaknesses identified by the OIG over the last several years, allowed criminals to defraud the system.^{xi}

Half a Billion Excess Claims for Unemployment Benefits

Dollar amounts are in parentheses.



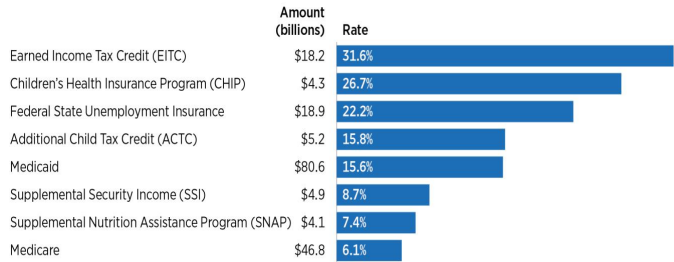
SOURCES: News release, “Unemployment Insurance Weekly Claims,” U.S. Department of Labor, July 1, 2021, <https://www.dol.gov/ia/data.pdf> (accessed July 7, 2021); U.S. Bureau of Labor Statistics, “Civilian Unemployment (Seasonally Adjusted)—LNS12000000,” <https://data.bls.gov/cgi-bin/survey/most?bs> (accessed June 20, 2021); and U.S. Department of Labor, Office of Inspector General, “DOL-OIG Oversight of the Unemployment Insurance Program,” June 10, 2021, <https://www.oig.dol.gov/doloigoversightwork.htm> (accessed October 11, 2022).

Although still incomplete, the IG estimates that at least \$191 billion in improper payments went out through the pandemic unemployment insurance programs.^{xii} My own analysis, which compared the amount of UI payments that

would have been needed to provide benefits to 100 percent of people who were unemployed to the amount of benefits that were actually paid and found that at least \$357 billion in UI benefits went to people who were not unemployed.^{xiii}

Federal Programs with Highest Improper Payments

Figures are from 2022.



* Per official reporting, improper payments contained herein include both improper and unknown payment amounts. SOURCE: PaymentAccuracy.gov, “Annual Improper Payments Database,” 2022, <https://www.paymentaccuracy.gov/> (accessed May 2, 2023).

In general, federal grants, tax-administered child-related benefit programs, health care programs, and state-administered federal programs have the highest rates and levels of improper payments.

For a more detailed description of the causes of improper payments within these categories see: Rachel Greszler, “As Administration Cracks Down on Taxpayers, Government’s Own Improper Payments Go Unchecked,” Heritage Foundation *Backgrounder* No. 3733.

Proposed solutions to protecting the integrity and accountability within those programs include:

- **Reform payment and risk adjustment in Medicare Advantage (MA),** utilizing a competitive, market-based bidding process.^{xiv}
- **Hold states accountable for improper Medicaid/CHIP eligibility determinations.**^{xv}
- **Remove the APTC overpayment exemption,** which allows people to keep advance tax credit overpayments.
- **Maximize recoupment of fraudulent pandemic unemployment insurance funds.** H.R. 1163, the Protecting Taxpayers and

Victims of Unemployment Fraud Act would help recoup federal taxpayers' funds.^{xvi}

- **The federal government should not supersede states' UI systems.**
- **Any future federal UI funding should be conditioned on anti-fraud compliance.**^{xvii}
- **States should modernize UI programs and verify identification.**
- **Do not expand UI programs to non-UI participants,** for whom a government system would be illogical, unhelpful, and subject to high rates of improper payments.
- **Consider exempting employers from mandatory UI participation in exchange for providing workers rainy day funds.**

Child-related tax credits and payments have enormous improper payments, including a 31.6 percent improper payment rate in the Earned Income Tax Credit (EITC) had a 15.8 percent improper payment rate in the Additional Child Tax Credit (ACTC). Because most of these improper payments come from income misreporting and qualifying child residency errors,^{xviii} policymakers should require that, prior to payment, administrators:

- **Verify the identity of individuals** who claim the EITC and ACTC.
- **Confirm that the children** for whom they claim these credits exist and are not claimed on more than one return.
- **Verify the reported income earned** before issuing EITC and ACTC payments.
- **Require Social Security numbers** for all EITC and ACTC payments to verify legal authority to work in the U.S.^{xix}
- **Apply minimal residency checks** using secure federal databases, such as matching claimants' addresses with children's school addresses from school lunch program data.
- **Improve tax preparer information,** including requiring full documentation from tax preparers who prepare returns with EITC or

CTC claims and using this data to improve audit efficiency.^{xx}

- **Reform welfare programs,** including tying eligibility to individuals with legal custody of a child.^{xxi}

Lack of Integrity and Accountability Drive Improper Payments

Government programs do not have the natural integrity and accountability of private-sector businesses and programs because the people managing the programs and payments—bureaucrats and politicians—are only remotely connected to the taxpayers who have to pay for the programs.

Moreover, the incentive structure for government programs—with success measured by how many people are served and how quickly benefits are delivered—leads to widespread failures in verifying people's identities and eligibility for government programs. While these failures cost taxpayers hundreds of billions of dollars per year, they are without consequence for the agencies and programs themselves.

Weak and Underused Verification Systems.

Linda Miller, the principal author of the GAO's 2015 Framework for Managing Fraud Risks in Federal Programs, wrote that "the lack of eligibility verification is the prevailing root cause of improper payments overall."^{xxii}

Government programs often lack meaningful verification procedures, including inadequate policies, systems, and actual use. For example, the federal government has a Do Not Pay database that agencies are required to check before making payments. However, the former assistant director of Forensic Audits and Investigative Service at the GAO explained in 2022 congressional testimony that "[t]he [Do Not Pay] working system offers full access to only three of six databases required by improper payments laws and only partial or no access to the remaining three."^{xxiii}

Miller also explained that while agencies are required to use Do Not Pay prior to payment, agencies usually ping the database, send the payments, and *then* receive the database results after the money has gone out the door, making it unlikely that the agency will recover payments that should not have been sent.

Current OMB Deputy Director for Management Jason Miller testified during a March 17, 2022, Senate hearing that Login.gov, which is supposed to increase security and reduce fraud, still lacks functionality, and needs “stronger tools in place on identity verification.”^{xxiv}

Notwithstanding existing government databases and systems, many programs fail to perform even basic oversight, even when required to do so. For example, the GAO’s FY 2022 IG report noted that when administering Medicaid, states sometimes did not verify eligibility data, did not submit medical records, or did not appropriately screen enrolled Medicaid providers. In 2022, Medicaid sent out \$80.6 billion in improper payments.^{xxv}

Near-Zero Accountability. Despite laws, such as the Improper Payments Information Act, that require agencies to identify and measure improper payments, to work with the OMB on steps to reduce improper payments, and to report to Congress on their progress, there are zero consequences even if agencies do nothing and produce even higher improper payments in subsequent years. Without any impact on program administrators or on agencies’ budgets, and with most transfer programs structured as unlimited entitlements, it is as though federal benefit programs have no bottom line. That leads them to operate in ways that would cause any private business to fail.

For example, the Veterans Administration’s long-term services and support program has spent more than four of every five dollars it has delivered over the past five years on payments to the wrong providers or in the wrong amounts. But since the program is not held accountable, veterans receive the services at

five times what they should cost and taxpayers foot the bill without knowing and with having little ability to do anything about it.^{xxvi}

Solution: Prioritize Accountability and Integrity with a New Taxpayer Integrity Office. Federal agencies are all over the place in terms of their policies and procedures related to security and integrity within their payment programs. Few are doing a good job, and most of the big programs are failing miserably. Accountability and integrity should be systemic across government.

It should be easier for federal programs to protect taxpayers’ money and harder for them to waste it. And it should be easier for people to get the benefits they are qualified to receive and harder to get benefits they are not qualified to receive. These goals could be achieved—potentially with hundreds of billions of dollars in taxpayer savings annually—through a new federal Taxpayer Integrity Office within the Department of the Treasury.

A Taxpayer Integrity Office (TIO) could determine best practices related to security, eligibility verification, and information sharing and issue related recommendations and requirements covering federal agencies as well as state-administered federal programs.

In addition to broad-based policies and requirements, the TIO could delegate a portion of its agents to provide tailored support and direction to individual agencies and programs.

The TIO could also become a secure, central data source to prevent fraud and improve eligibility verification. Accomplishing those goals will almost certainly require Congress to amend the Privacy Act to allow limited information sharing between agencies, provided sufficient privacy and security measures are taken. An initial function of the TIO could be to identify necessary data sharing and recommend measures to protect Americans’ privacy and the security of their information.

The TIO should not require additional taxpayer resources. Initial funding could come from already appropriated resources from the Inflation Reduction Act's \$80 billion increase in the IRS budget and the TIO should, within a few years, produce multiples more in savings than it would cost to administer. A crucial component of the TIO would be providing it sufficient authority to impose meaningful consequences on agencies that fail to properly steward taxpayers' dollars.

The following principles and goals should guide the TIO. The new office should:

Strengthen Information Sharing Across Federal Government. Current failure to connect information across existing programs is a major source of improper payments. The TIO should require agencies to run eligibility checks—through a streamlined and secure portal—on at least a portion of their recipients prior to issuing payments. For example, crosschecking usage of school-meal-program benefits with where a filer's income was earned could help to catch residency errors related to qualifying children.

Improve Eligibility and ID Verification. Policymakers should streamline benefit programs and establish bright-line eligibility criteria so that it is easier for individuals and program administrators to determine eligibility. Administrators also need to make use of existing—and improved—government data sharing. As Linda Miller explained, “Today there are many automated, behind-the-scenes, data-driven tools that can authenticate a user and verify eligibility in near real time with little to no impact on the user.”^{xxvii} The federal government needs to use proven private-sector technologies to improve government eligibility and ID verification and to create more effective programs for intended recipients.

Maintain Competitive, Responsive, and Secure Systems. The federal government often lacks the responsiveness, innovation, and security of private-sector systems, and it lags behind in the

adoption of new technology that would benefit taxpayers. The TIO's central database should use private-sector innovation in its development and ongoing management. The TIO should also prioritize the protection of personal information, including requiring best practices within government systems and in any contracts with private-sector companies.

Establish and Enforce Reasonable Standards. Most agencies are currently ignoring security standards and requirements.^{xxviii} The TIO should be tasked with establishing clear standards and ensuring that agencies actually follow them.

Enact Meaningful Consequences for Failure. History shows that without consequences, agencies will not take sufficient action to reduce improper payments. Policymakers must provide the TIO sufficient legislative directive and authority to carry out its mission through rewards and consequences related to following the prescribed rules and meeting proper payment targets.

Imposing consequences within federal programs is not easy. For starters, financial consequences can hurt innocent program beneficiaries instead of negligent program administrators. Thus, successful stewardship of taxpayer dollars should include both consequences and rewards. That could include reductions in agencies' discretionary agency budgets, demotion or dismissal of federal employees who fail to follow integrity procedures and fail to meet specified improper payment metrics, and promotions and pay increases for federal employees who achieve or exceed specified integrity metrics.

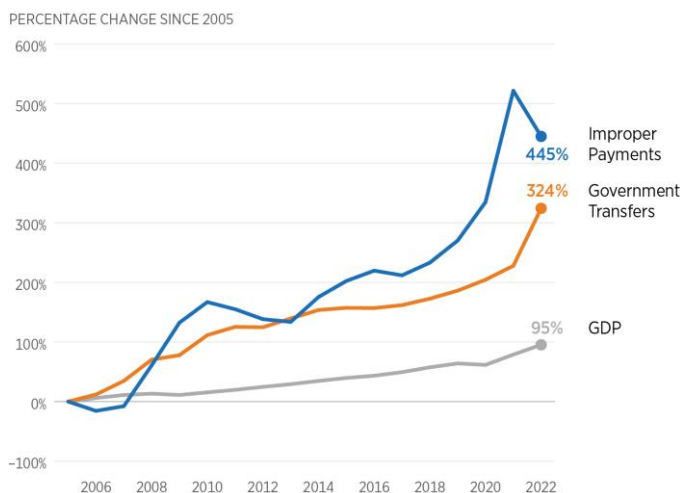
Hold States Accountable to Federal Standards for State-Administered Federal Programs. States that administer federal payment programs like Medicaid and food stamps could benefit from access to federal data to help determine eligibility. The TIO should require states to follow the same data-verification procedures as federal program

administrators, and states should be required to provide data to the federal government to track who is receiving state-administered federal benefits. States should also have to follow the same standards of accountability and integrity as the federal government in administering federal payment programs and should be subject to consequences, such as reduced federal payment shares, for failure to meet required data sharing and integrity and accountability standards.

Improper Government Spending and Improper Payments Go Hand in Hand

Between 2005 and 2022, gross domestic product (GDP) increased by 95 percent, government program payments rose by 324 percent, and improper payments skyrocketed by 445 percent.^{xxix} In other words, government spending grew at more than three times the rate of GDP and improper payments grew at four and a half times the rate of GDP.

Government Transfers and Improper Payments Have Skyrocketed



SOURCES: PaymentAccuracy.gov, Federal Reserve of St. Louis, Bureau of Economic Analysis, and authors' calculations.

Tremendous growth in the size of the federal government has magnified the growth in improper payments, and the federal government seeks to take charge of things that

can be better accomplished by state and local governments, charitable and religious organizations, and by people themselves.

The further away from its core functions the federal government expands, the less efficient, effective, and more harmful it becomes. The federal government now spends nearly five times as much transferring money from some people to others as it does on national defense and the justice system combined.^{xxx}

In 2022, the federal government spent \$4.2 trillion—representing nine out of every 10 tax dollars it collected and two of every three dollars the federal government spent—on transfer payments.^{xxxi} Virtually all those \$4.2 trillion in federal payments were for things outside the proper functions of the federal government.

Expanded Entitlement Programs Displace Personal Freedom and Opportunity.

Even when growth in federal spending comes from the expansion of widescale government benefit programs, those programs are generally not making people better off. Taking more of everyone's earnings, establishing hundreds of eligibility-based programs, and requiring people to follow bureaucratic and often-complicated processes to receive program benefits is inefficient and generally leaves people with lower incomes and less control over their lives. The creation of government programs that attempt to solve social ills has also crowded out the benefits of family and of civil society.

Payments from federal programs typically require a bureaucratic application and receipt process and they come with conditions that alter the ways that Americans live their lives and run their businesses.

For example, a proposed new federal childcare entitlement would put the government instead of parents in control of childcare, drive up childcare costs, crowd out smaller providers, and exclude faith-based childcare.^{xxxii} The proposed program would disproportionately

benefit high-income couples,^{xxxiii} and would almost certainly suffer from high rates of improper payments.

Politically Motivated Spending Growth. Part of the growth in government spending and transfer payments comes from politically motivated spending that is outside the appropriate scope of government and which is harmful to many Americans.

Whether it is federal K-12 funding that made it easier for schools to cave to teachers unions' and keep students locked out for longer, tens of billions of dollars in research grants that indirectly subsidize diversity bureaucrats,^{xxxiv} tens of billions of dollars for barely-used progressive-favored infrastructure projects, or the abuse of earmarks and the Community Development Fund to function as campaigning, taxpayers' funding of ideological spending has exploded.

Ways to Increase Government Efficiency, Expand Self-sufficiency and Opportunity. To restore the federal government to its proper functions, to give individuals more autonomy and income, and to reduce improper payments, policymakers should:

- **Reduce or eliminate tax credits and substitute them with lower tax rates.** Fewer tax credits would allow lower overall tax rates and reduce taxpayer dollars wasted on improper payments. When people pay less in taxes, they have more money to spend and save on their own, which means that they have less need for government programs.
- **Reject new and expanded entitlement programs and empower average Americans instead of politicians and bureaucrats.** Most major entitlement programs tax people and then give them a proscribed benefit, based on government restrictions, regulations, and administrative hurdles.^{xxxv} Policymakers can do more to expand access to things people need by eliminating barriers to achieving them.^{xxxvi}

- **Reform existing entitlement programs to build independence, ownership, and autonomy.** History shows that entitlement programs continually grow in size and scope over time, passing the buck of excessive spending to future generations. Social Security started out as a 2 percent tax and now requires a 15.8 percent tax to remain solvent.^{xxxvii} High taxes make it harder for workers—especially lower-income ones—to save money and to afford what they need for their families. Policymakers should make Social Security solvent through commonsense reforms that tailor it to those in need while also providing an option for individuals to build wealth that they own and can pass on to their heirs.

- **Eliminate earmarks and the Community Development Block Grant (CDBG).** Earmarks for the CDBG are used for pork-barrel projects that should be funded by state or local governments or private or charitable enterprises.

- **Enact USAs so that more Americans can save in a single, simple, tax-free account for whatever needs arise.** When taxed less, Americans can save more, and when people have more savings, they do not have to navigate as many eligibility-based social programs, and USAs have been particularly beneficial to low-income workers.^{xxxviii}

- **Enact the Limit, Save, Grow Act to begin curbing out-of-control spending and to enable economic growth.** Current federal spending and the future trajectory threaten to reverse the American ideal of the next generation becoming better off than the last. Without commonsense fiscal sanity and a return to the proper size and scope of the federal government, each future generation can expect to have less income of their own (after taxes), less freedom, and fewer opportunities than the generation before.

The following table (full-sized version in the appendix) contains all of the recommendations made in this testimony.

Recommendations to Improve Efficiency of Government and Integrity and Accountability in Government Payments

Government Healthcare Programs (Medicare, Medicaid, CHIP, Obamacare)

- Reform payment and risk adjustment in Medicare Advantage.
- Hold states accountable for improper Medicaid/CHIP eligibility determinations.
- Remove the advance premium tax credit overpayment exemption.

Unemployment Insurance

- Maximize recoupment of pandemic UI fraud (H.R. 1163, Protecting Taxpayers and Victims of Unemployment Fraud Act)
- Do not federally supersede states' UI systems.
- Condition federal UI funds to states on anti-fraud compliance.
- Modernize UI programs and verify identification.
- Do not expand UI to non-UI participants.
- Consider employer-provided rainy-day fund alternative to government UI.

Child- and Income-Related Tax Credits and Payments

- Verify the identity of individuals claiming the EITC and ACTC.
- Confirm that children claimed exist and are not claimed on more than one return.
- Verify the reported income earned before issuing EITC and ACTC payments.
- Require Social Security numbers for all EITC and ACTC payments to ensure recipients have legal authority to work in the U.S.
- Apply minimal residency checks using secure federal databases.
- Improve tax preparer information.
- Reforms welfare programs, including tying eligibility to individuals with legal custody of a child.

Improve Integrity and Accountability with a Taxpayer Integrity Office that Will:

- Strengthen information sharing across federal government.
- Improve eligibility and ID verification
- Maintain competitive, responsive, and secure systems
- Establish and enforce reasonable standards
- Enact meaningful consequences for failure.
- Apply TIA rules and procedures to state agencies that administer federal programs.

Increase Government Efficiency, Expand Self-Sufficiency and Opportunity

- Reduce or eliminate tax credits in place of lower tax rates.
- Reject new and expanded entitlement programs and empower people over politicians and bureaucrats.
- Reform existing entitlement programs to build independence, ownership, and autonomy.
- Eliminate earmarks and the Community Development Block Grant
- Enact Universal Savings Accounts (USAs) so that Americans can save in one single, simple account for whatever they want.

Summary

The bloated size of the federal government and the inherent lack of integrity and accountability are already burdening Americans. Left unchecked, the federal government's reckless spending will crush younger and future generations, for whom politicians have taken out \$31.5 trillion in debt and \$75.3 trillion in unfunded entitlement obligations in their names.

Adding insult to injury, the federal government not only spends trillions of dollars on things outside its core functions; it also cannot even properly distribute the money it collects. Mere government mistakes are costing the median household over \$1,800 per year. While the

government is currently financing those costs through higher deficits, taxpayers will eventually have to repay those debts.

The Inflation Reduction Act gives the IRS \$80 billion in additional funding to audit millions more taxpayers per year, with the goal of bringing in about \$200 billion in additional tax revenues over the next 10 years. But the federal government is spending well over \$200 billion of taxpayers' money on improper payments *every year*.^{xxxix}

It is one thing for taxpayers to make improper payments when navigating a 7,000-page tax code, but it is another for the federal government to send hundreds of billions of dollars to the wrong people and in the wrong amounts when carrying out the programs it designed and administers itself.

Improving accountability and integrity within federal programs requires basic and commonsense practices across all government programs—such as replacing decades-old-software systems with modern and secure technology and conducting basic checks to ensure that people are who they claim to be and that they are eligible for the benefits or payments they claim—as well as program-specific standards and practices.

Because integrity and accountability practices will be worthless if not enforced with meaningful and effective consequences, Congress should establish a Taxpayer Integrity Office with the power to impose meaningful consequences for failure to adequately steward taxpayers' resources.

Policymakers also need to address exponential growth in the size of government that has caused it to become too unwieldy to dutifully manage.

In 2022, the federal government spent the equivalent of \$48,200 per household, including \$32,500 of transfer payments. That means federal spending equals nearly 70 percent of the median household's \$71,000 income, and

federal transfer payments equal to nearly half the median household income.

To bring federal government spending back towards its core purposes and to increase personal freedom and opportunities, Congress should phase out or eliminate government programs that seek to accomplish things that Americans can do better on their own or that are better carried out through state and local governments or charitable and religious organizations.

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APPENDIX OF GRAPHICS

Improper Payments Eclipse Administration of Justice

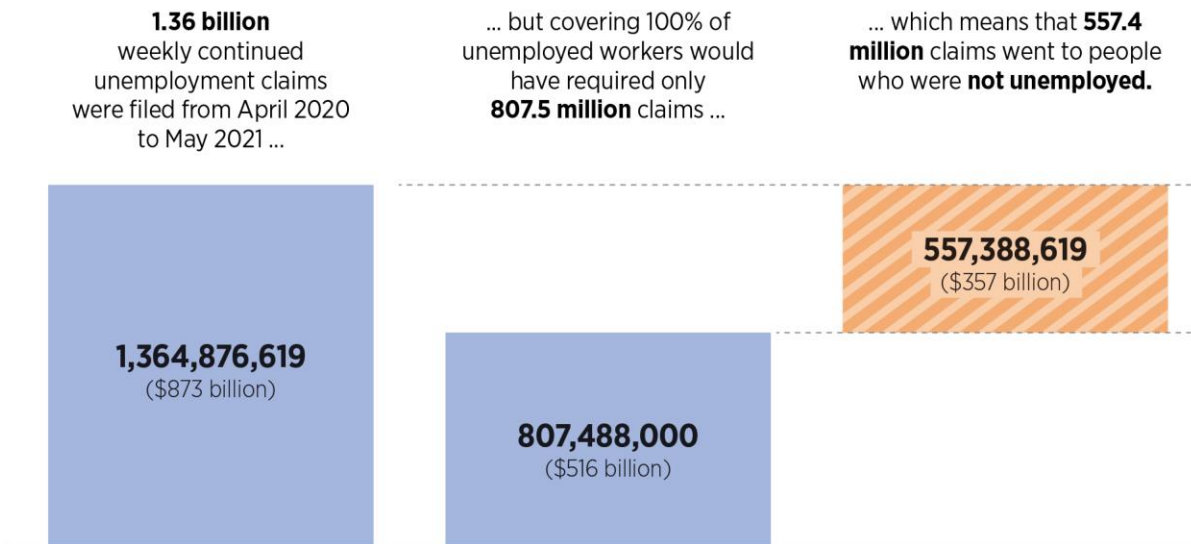
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Half a Billion Excess Claims for Unemployment Benefits

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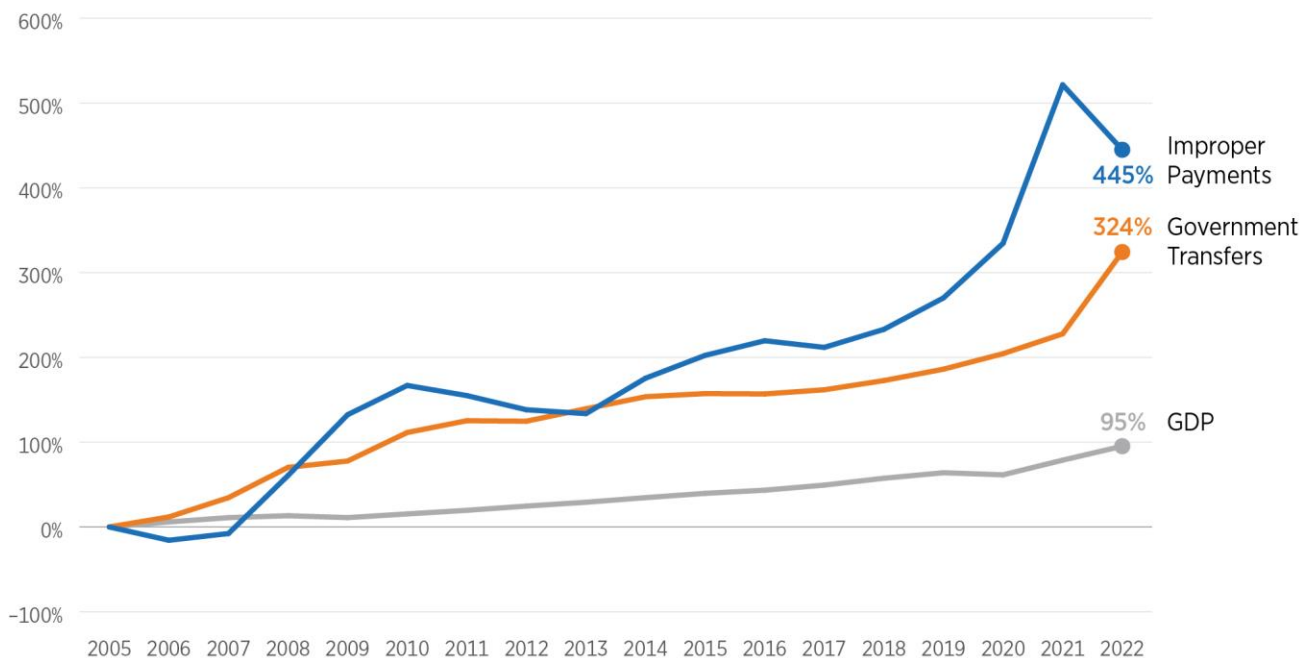
	Amount (billions)	Rate
Earned Income Tax Credit (EITC)	\$18.2	31.6%
Children’s Health Insurance Program (CHIP)	\$4.3	26.7%
Federal State Unemployment Insurance	\$18.9	22.2%
Additional Child Tax Credit (ACTC)	\$5.2	15.8%
Medicaid	\$80.6	15.6%
Supplemental Security Income (SSI)	\$4.9	8.7%
Supplemental Nutrition Assistance Program (SNAP)	\$4.1	7.4%
Medicare	\$46.8	6.1%

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SOURCE: PaymentAccuracy.gov, “Annual Improper Payments Database,” 2022, <https://www.paymentaccuracy.gov/> (accessed May 2, 2023).

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PERCENTAGE CHANGE SINCE 2005



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Recommendations to Improve Efficiency of Government and Integrity and Accountability in Government Payments

Government Healthcare Programs (Medicare, Medicaid, CHIP, Obamacare)

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Unemployment Insurance

- Maximize recoupment of pandemic UI fraud (H.R. 1163, Protecting Taxpayers and Victims of Unemployment Fraud Act)
- Do not federally supersede states' UI systems.
- Condition federal UI funds to states on anti-fraud compliance.
- Modernize UI programs and verify identification.
- Do not expand UI to non-UI participants.
- Consider employer-provided rainy-day fund alternative to government UI.

Child- and Income-Related Tax Credits and Payments

- Verify the identity of individuals claiming the EITC and ACTC.
- Confirm that children claimed exist and are not claimed on more than one return.
- Verify the reported income earned before issuing EITC and ACTC payments.
- Require Social Security numbers for all EITC and ACTC payments to ensure recipients have legal authority to work in the U.S.
- Apply minimal residency checks using secure federal databases.
- Improve tax preparer information.
- Reforms welfare programs, including tying eligibility to individuals with legal custody of a child.

Improve Integrity and Accountability with a Taxpayer Integrity Office that Will:

- Strengthen information sharing across federal government.
- Improve eligibility and ID verification
- Maintain competitive, responsive, and secure systems
- Establish and enforce reasonable standards
- Enact meaningful consequences for failure.
- Apply TIA rules and procedures to state agencies that administer federal programs.

Increase Government Efficiency, Expand Self-Sufficiency and Opportunity

- Reduce or eliminate tax credits in place of lower tax rates.
 - Reject new and expanded entitlement programs and empower people over politicians and bureaucrats.
 - Reform existing entitlement programs to build independence, ownership, and autonomy.
 - Eliminate earmarks and the Community Development Block Grant
 - Enact Universal Savings Accounts (USAs) so that Americans can save in one single, simple account for whatever they want.
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ⁱWhile not every improper payment is a loss to taxpayers, it appears that the overwhelming majority are direct losses. In 2022, only \$5.2 billion (2.1 percent) of the reported \$245 billion in improper and unknown payments were *underpayments* that did not represent an additional cost to taxpayers.

ⁱⁱPaymentAccuracy.gov, “Annual Improper Payments Database,” 2022 and 2015 Datasets, <https://www.paymentaccuracy.gov/> (accessed May 8, 2023). The OMB’s Annual Improper Payments Database reports \$4.205 trillion in total program payments and \$245 billion in improper and unknown payments for 2022. The totals reported in this paper exclude Department of Defense (DOD) compensation, including \$617 billion in total payments and \$2.0 billion in improper payments. This exclusion is made because the compensation of non-defense federal employees is generally not included in the reported program outlays, and because national defense is a core function of government.

ⁱⁱⁱConsistent with the Government Accountability Office’s Inspector General (OIG) methodology and reporting, going forward, this testimony refers to “improper payments” as the amounts reported as “improper and unknown” in the government’s official report. See U.S. Government Accountability Office, “Improper Payments: Fiscal Year 2022 Estimates and Opportunities for Improvement,” March 2023, <https://www.gao.gov/assets/gao-23-106285.pdf> (accessed May 6, 2023).

^{iv}Congressional Budget Office, “Budget and Economic Data,” Spending Projections by Budget Account May 2022, <https://www.cbo.gov/data/budget-economic-data#2> (accessed October 4, 2022).

^vPaymentAccuracy.gov, “Annual Improper Payments Database,” 2022, <https://www.paymentaccuracy.gov/> (accessed May 6, 2023). Per the OMB, which refers to “improper payments” as the figures listed as “improper and unknown payments” in its data reports, this testimony similarly includes both “improper” and “unknown” payments when referencing “improper payments.”

^{vi}The Health and Human Services OIG estimates that the Centers for Medicare and Medicaid Services (CMS) made \$950 million in Advance Premium Tax Credit (APTC) payments that were deemed not allowable in 2018. By law, the ACA limits how much the IRS can recoup from individuals who receive APTC overpayments. This is another source of improper overpayment that is unaccounted. See U.S. Department of Health and Human Services OIG, “CMS Authorized Hundreds of Millions of Dollars in Advanced Premium Tax Credits on Behalf of Enrollees Who Did Not Make Their Required Premium Payments,” March 2021, <https://oig.hhs.gov/oas/reports/region2/21902005.pdf> (accessed October 20, 2022).

^{vii}Rachel Greszler, “What Taxpayers, Workers, and Retirees Need to Know About the Union Pension Bailout That Has Nothing to Do with COVID-19,” Heritage Foundation *Issue Brief* No. 6059, February 26, 2021, <https://www.heritage.org/sites/default/files/2021-02/IB6059.pdf>.

^{viii}Rachel Greszler, “Biden’s Abuse of Power Causes CBO to Raise Cost Estimate of Private Pension Bailouts by \$4.5 Billion,” The Daily Signal, October 12, 2022, <https://www.dailysignal.com/2022/10/12/bidens-abuse-of-power-causes-cbo-to-raise-cost-estimate-of-private-pension-bailout-by-4-5-billion>.

^{ix}PaymentAccuracy.gov, “Annual Improper Payments Database,” 2022.

^x*Ibid.*

^{xi}U.S. Department of Labor OIG, “DOL–OIG Oversight of the Unemployment Insurance Program,” <https://www.oig.dol.gov/doloiguioversightwork.htm> (accessed August 31, 2022).

^{xii}U.S. Department of Labor OIG, “DOL–OIG Oversight of the Unemployment Insurance Program,” updated February 8, 2023, <https://www.oig.dol.gov/doloiguioversightwork.htm> (accessed May 5, 2023).

^{xiii}Rachel Greszler, “A Warning Against Embedding Problematic Pandemic Unemployment Benefits,” Heritage Foundation *Backgrounder* No. 3637, July 13, 2021, <https://www.heritage.org/sites/default/files/2021-07/BG3637.pdf>.

^{xiv}Robert E. Moffit and Alyene Senger, “Progress in Medicare Advantage: Key Lessons for Medicare Reform,” Heritage Foundation *Backgrounder* No. 2945, September 4, 2014, http://thf_media.s3.amazonaws.com/2014/pdf/BG2945.pdf.

^{xv}Nina Owcharenko Schaefer, “Medicaid at 55: Understanding the Design, Trends, and Reform Needed to Improve the Health Care Safety Net,” Heritage Foundation *Backgrounder* No. 3604, April 14, 2021, https://www.heritage.org/sites/default/files/2021-04/BG3604_0.pdf.

^{xvi} Although these actions are necessary since hundreds of billions of federal taxpayer dollars have been lost to fraud, if the federal government has to effectively bribe states in order for them to be good stewards of federal taxpayer dollars, the federal government should not be intervening in or funding those state programs

^{xvii} Although no perfect standard nor system exists, the National Institute of Standards and Technology (NIST) has developed a set of digital identity guidelines (NIST 800-63) that provide excellent tools for public-sector and private-sector organizations. Compliance with these standards results in significant reductions in fraud and improper payments.

For example, in states that implemented NIST-compliant eligibility checks during the surge in pandemic unemployment insurance programs, fraudulent claims payouts plummeted immediately, and the states reportedly saved billions of dollars.

^{xviii}Residency qualifications can be very complicated for children who live in more than one home throughout the year and who receive financial support from more than one tax filer.

^{xix}The ACTC should only be available to parents who perform lawful work and have lawful earnings in the U.S. Individual Taxpayer Identification Number (ITIN) filers do not meet those criteria. Cash payments through the ACTC are public benefits under the welfare reform law of 1996 and individuals residing illegally in the U.S. are not eligible to receive public benefits.

^{xx}Overpayment rates are very high for returns with EITC claims, but they vary significantly across type of preparer. Taxes filed through the IRS's Volunteer Income Tax Assistance (VITA) and Taxpayer Counseling for the Elderly (TCE) have 26 percent overpayment rates compared to 47 percent overpayments among self-prepared EITC returns and 71 percent overpayments among EITC returns prepared by unknown types of paid preparers. The IRS should consider including the preparer type in its metrics that determine which returns are audited. Internal Revenue Service, "Compliance Estimates for the Earned Income Tax Claimed on 2006-2008 Returns," August 2014, <https://www.irs.gov/pub/irs-soi/EITCComplianceStudyTY2006-2008.pdf#page=36> (accessed September 26, 2022).

^{xxi}Welfare reform is necessary because eligibility factors, such as financial dependence and residency, are nearly impossible to verify across claimants. In instances of temporary custody and changed custody, claimants should be able to submit evidence of their custodial care and provision in order to claim the credits.

^{xxii}Linda Miller, "Improper Payments Laws Create Ineffective Compliance Efforts That Do Little to Stop Fraud, Waste and Abuse," *The Hill*, April 17, 2019, <https://thehill.com/blogs/congress-blog/the-administration/439242-improper-payments-laws-create-ineffective-compliance/> (accessed October 3, 2022).

^{xxiii}Linda Miller, testimony before the Committee on Oversight and Government Reform, U.S. House of Representatives, March 31, 2022, <https://docs.house.gov/meetings/GO/GO24/20220331/114566/HHRG-117-GO24-Wstate-MillerL-20220331.pdf> (accessed October 3, 2022).

^{xxiv}Hearing, *Pandemic Response and Accountability: Reducing Fraud and Expanding Access to COVID-19 Relief through Effective Oversight*, Committee on Homeland Security and Government Affairs, U.S. Senate, March 17, 2022, <https://www.hsgac.senate.gov/hearings/pandemic-response-and-accountability-reducing-fraud-and-expanding-access-to-covid-19-relief-through-effective-oversight> (accessed October 3, 2022).

^{xxv}PaymentAccuracy.gov, "Annual Improper Payments Database," 2021 Dataset.

^{xxvi}According to the OMB's 2021 payment accuracy report, the Veterans Administration spent \$2.603 billion on "purchased long term services and supports" in 2021, with only \$708 million reported as "properly paid."

^{xxvii}Miller, testimony before the Committee on Oversight and Government Reform.

^{xxviii}Russell T. Vought, "M-19-17 Memorandum for Executive Heads of Departments and Agencies," OMB, Executive Office of the President, May 21, 2019, <https://www.whitehouse.gov/wp-content/uploads/2019/05/M-19-17.pdf> (accessed October 3, 2022).

^{xxix}PaymentAccuracy.gov, "Annual Improper Payments Database," 2022 and 2015 databases, <https://www.paymentaccuracy.gov/> (accessed May 6, 2023), and Federal Reserve of St. Louis, "Gross Domestic Product," annual averages, <https://fred.stlouisfed.org/series/GDP> (accessed May 6, 2023).

^{xxx}In 2022, federal transfers equaled \$4.205 trillion and federal spending on defense and the administration of justice totaled \$885 billion. Congressional Budget Office, *The Budget and Economic Outlook: 2022 to 2032*, May 2022, <https://www.cbo.gov/publication/57950> (accessed September 9, 2022).

^{xxxi}PaymentAccuracy.gov, "Annual Improper Payments Database," 2022, and Congressional Budget Office, *The Budget and Economic Outlook: 2022 to 2032*, May 2022, <https://www.cbo.gov/publication/57950> (accessed September 9, 2022). Note: The OMB reports \$4.822 trillion in total program payments for 2022, but as with other figures reported from the PaymentAccuracy.gov website in this testimony, I have excluded the \$617 billion of payments for DOD civilian and military pay and military health and retirement benefits. Excluding DOD payments, the federal government spent \$4.205 trillion on program payments in 2022.

^{xxxii}Rachel Greszler, "The Role of Childcare in an Equitable Post-Pandemic Economy," testimony before the Subcommittee on Economic Policy, Committee on Banking and Urban Affairs, U.S. Senate, June 23, 2021, <https://www.banking.senate.gov/imo/media/doc/Greszler%20Testimony%206-23-21.pdf> (accessed March 28, 2022).

^{xxxiii}Rachel Greszler, "Government Childcare Subsidies: Whom Will They Help Most?" Heritage Foundation *Issue Brief* No. 5231, October 20, 2021, <https://www.heritage.org/sites/default/files/2021-10/IB5231.pdf>.

^{xxxiv}Jay P. Greene and John Schoof, "Indirect Costs: How Taxpayers Subsidize University Nonsense," Heritage Foundation *Backgrounder* No. 3681, January 18, 2022, <https://www.heritage.org/education/report/indirect-costs-how-taxpayers-subsidize-university-nonsense>.

^{xxxv}Greszler, "Government Childcare Subsidies: Whom Will They Help Most?"

^{xxxvi}Rachel Greszler and Lindsey M. Burke, “Rethinking Early Childhood Education and Childcare in the COVID-19 Era,” Heritage Foundation *Backgrounder* No. 3533, September 30, 2020, <https://www.heritage.org/sites/default/files/2020-09/BG3533.pdf>.

^{xxxvii}Rachel Greszler, “Seven Hard Truths Americans Should Know About Social Security in 2021—and Five Ways to Strengthen Social Security,” Heritage Foundation *Issue Brief* No. 5212, September 3, 2021, <https://www.heritage.org/sites/default/files/2021-09/IB5212.pdf>.

^{xxxviii}Adam Michel, “Universal Savings Accounts Can Help All Americans Build Savings,” Heritage Foundation *Backgrounder* No. 3370, December 4, 2018, <https://www.heritage.org/taxes/report/universal-savings-accounts-can-help-all-americans-build-savings>.

^{xxxix}PaymentAccuracy.gov, “Annual Improper Payments Database,” 2021, <https://www.paymentaccuracy.gov/> (accessed September 6, 2022). Per the Office of Management and Budget (OMB), which refers to “improper payments” as the figures listed as “improper and unknown payments” in its data reports, this testimony similarly includes both “improper” and “unknown” payments when referencing “improper payments.”