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ELIMINATING AGENCY PAYMENT ERRORS

HEARING

BEFORE THE

FEDERAL FINANCIAL MANAGEMENT, GOVERNMENT INFORMATION, FEDERAL SERVICES, AND INTERNATIONAL SECURITY SUBCOMMITTEE

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

JANUARY 31, 2008

Available via http://www.gpoaccess.gov/congress/index.html

Printed for the use of the Committee on Homeland Security and Governmental Affairs

U.S. GOVERNMENT PRINTING OFFICE

41–449 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
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ELIMINATING AGENCY PAYMENT ERRORS

THURSDAY, JANUARY 31, 2008

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL FINANCIAL MANAGEMENT,
GOVERNMENT INFORMATION, FEDERAL SERVICE,
AND INTERNATIONAL SECURITY,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:34 p.m., in Room SD–342, Dirksen Senate Office Building, Hon. Thomas R. Carper, Chairman of the Subcommittee, presiding.

Present: Senators Carper, Levin, and Coburn.

OPENING STATEMENT OF SENATOR CARPER

Senator CARPER. All right. The hearing will now come to order. Welcome, one and all, and to McCoy Williams and the real Danny Werfel. Thank you for joining us today.

And to our second panel of witnesses and others—some of our colleagues will be coming in and out, and we look forward to their joining us.

When is Ground Hog Day? Is it in February?

Senator COBURN. It is a movie.

Senator CARPER. I know it is a movie. But when it comes to this issue of improper payments, I feel a little bit like Ground Hog Day. This is something we have continued to visit and revisit, and we should.

I think the President, this current Administration, decided early on in their first term to make the issue of improper payments part of the President's Management Initiative, and, as I recall, the Improper Payments Information Act was enacted—I want to say around 2004? Does that sound right? Or was it a little before that?

Mr. WERFEL. 2002.

Senator CARPER. Maybe we came online in 2004 in terms of folks actually having to comply with it or beginning to comply with it.

And although we made a lot of progress in those last several years, there is still a whole lot of progress to be made, and I know that, and I think we all realize that.

We spend a whole lot of time around here talking about numbers. We are talking about a stimulus package that might be $140 billion, $150 billion, $160 billion, so, after a while, numbers like that begin to lose their meaning or impact.

But I want to take just a moment to put in perspective the number of $55 billion. And $55 billion is what we believe for 2007 was

the amount of improper payments made by agencies, some of it overpayments, some of it underpayments, but mostly I think overpayments.

But when we try to say, well, what does it actually mean, it is about one-third of what we are discussing for a stimulus package. And over here, on these charts,[1] an improper payment imbalance of about $55 billion would be—it looks like it is more than the GDP of Croatia, more than the GDP of Slovakia, and about the GDP of Vietnam.

And if you actually look at the second chart closest to Dr. Coburn and me, you can see that $55 billion would be the combined GDP of 44 countries, some of them pretty small countries. But Delaware is a pretty small State. So they are still countries, and they count.

But in any event, $55 billion is real money, and it is real money that we are concerned about, and ought to be concerned about.

I think, Dr. Coburn, when we were here about a year ago, we had a similar kind of hearing. We were looking at improper payments of closer to $40 billion. And we expected—I expected it might be bumped up a little bit because we are covering in 2007 some other major programs like Medicaid, the school lunch program, and the school breakfast program are reporting for the first time, so there is more that is really coming under the microscope here of improper payments, and so we should not be surprised that it has bounced up a little bit.

But again, it is a lot of money involved, and it is money that we have to be concerned about, and I am. Dr. Coburn is, and we know the Administration is, and we want to make sure that we continue to focus on it and be vigilant on it so that we continue to ratchet this number down as time goes by.

I think there are some major programs that we have yet to bring under the umbrella of scrutiny under improper payments. I believe Temporary Assistance for Needy Families might still be out there. I want to say that the State Children's Health Insurance Program is still outside their surveillance, if you will, and Medicare Prescription Drug Program, which is about a $50 billion a year program. These are all actually very substantial programs that are still outside of the improper payments surveillance. And as they come on board, I think next year, I would not be surprised to see the $55 billion bump up again a little bit, but my hope as to what happens as we go on beyond that is that programs start actually reducing improper payments. And some of those programs that have been under the gun since 2004 actually are seeing the incidence of improper payments come down.

So we know that some progress is being made, and we are mindful of that and grateful for that. It is positive, but there is a whole lot more that needs to be done.

Earlier today, I have introduced legislation, legislation that Senator Coburn and I and our staffs have worked on. We are calling it the Improper Payments Elimination and Recovery Act. I wish we could think of a good acronym for that, Senator. I bet if we put our hands to it, we could. I–P–E–R–A. I do not know what we call that,

[1] The charts referred to appears in the Appendix on page 00.

but we could probably come up with some acronym. We have them for everything else.

But it is legislation that is designed to make what I think are some dramatic improvements to the way that agencies identify and root out their improper payments problems. And it really comes after a couple of years, maybe 3 years, of our focusing on these issues as a Subcommittee under Dr. Coburn's leadership and mine. It is the stuff we both care about and have worked on together, and we will continue to do that going forward.

Our bill starts by improving transparency. OMB, right now, has set the reporting threshold for improper payments too low, meaning that millions of errors go unreported and potentially unaddressed each year.

Let us take for example, if we would, the Medicare Part D Program. If we use the rubric $10 million or 2.5 percent—it has to be both—in order for us to be analyzing a program for improper payments. And 2.5 percent of $50 billion is—what would that be, $1.25 billion dollars. That is a lot of money.

And under the current guideline, we do not trigger improper payments reporting threshold unless we exceed $10 billion and 2.5 percent. Then unless we are talking about something in excess of $1.25 billion dollars of improper payments, Medicare Part D would not be reporting or taking remedial action.

And I do not think that is too smart, and maybe some of the rest of you do not either. That is about half of the budget of the State of Delaware on an annual basis for a reference point.

But I think we need to lower the reporting threshold so that Congress and the general public have a better picture of the problem that we face.

This bill would also help to prevent improper payments from happening in the first place by requiring that agencies come up with detailed corrective action plans and error reduction targets. It would also implement a recent recommendation from GAO—and I just want to say our thanks to McCoy Williams and others at GAO who have given us good input as we try to craft this legislation.

But we want to implement a recent recommendation from GAO that calls on OMB to develop a process whereby agencies would receive regular audit opinions on the financial controls used to prevent improper payments before they happen.

This bill would also force agencies to be more aggressive in recovering improper payments that they make. I think in an ideal world, we would like to have no improper payments. We know that we all are human. We make mistakes, including Federal agencies. So the goal should be to figure out how we can make fewer improper payments.

But as long as we are improperly spending $45 billion, $50 billion, $55 billion, we need to be able to go out and do the recoveries, too.

Some agencies and most private sector firms regularly go over their books to identify payment errors and to get back overpayments made to contractors and others that they do business with. I do not think we have done enough of that in the Federal Government, and as you can see from the charts, where we have improper

payments, which shows that we have bounced between $45 billion and, say, $55 billion since Fiscal Year 2004.

The chart that reflects overpayments that have been recovered. And I think we can probably do better than that.

And eventually, we want to do a whole lot better by taking the top line there and bringing it back down, heading back down towards zero. And in the meantime, while there are these improper payments, we want to take overpayments recovered and we want to send that up a little bit higher on the chart.

So there is work to do there. But even as agencies report greater improper payments, we are seeing actually fewer improper payments recovered.

And what we propose to do in the legislation is to change this by requiring that all agencies with outlays of $1 million or more perform recovery audits on all of their programs and activities, if doing so is cost effective. I will say that again, if doing so is cost effective.

If it is not cost effective, then we are not going to insist on that, and we should not.

Finally, and perhaps more importantly, this bill would hold agencies accountable. Today, as I mentioned, some agencies do not appear to be taking the responsibility to deal with their improper payments problems as seriously as we would like to see happen. I want us to compel agencies to hold top managers accountable for their progress or the lack of progress and doing something to take better care of the tax dollars we entrust to them.

I look forward to working with my partner, Dr. Coburn, on this issue, and we are going to continue to focus on it, and we look forward to working with our witnesses here and the agencies that all of you represent.

It is not acceptable for us to know the amount of improper payments that we make every year and then to sit around watching the payments, improper payments, grow and know that we are not actually recovering more of those dollars. That is not acceptable.

As I like to say, if it is imperfect, make it better. This is imperfect. We can make it better, and, with the efforts of all of us, we will. Thank you. Dr. Coburn.

OPENING STATEMENT OF SENATOR COBURN

Senator COBURN. Thank you, Senator Carper, for having this hearing. You all are not the enemy. I understand that.

So as we discuss this, please take our comments in the light that we are trying to solve this problem. I have a statement for the record—I would like to have put into the record, if I could.

Senator CARPER. Without objection.

[The prepared statement of Senator Coburn follows:] ???

Senator COBURN. First of all, I do not believe the number that we have, I think it is about twice that. I sat and looked at Medicare and then I looked at what was just recently been documented in the State of Florida. Just by capturing one ring of people in Medicare, we dropped the billings $1.4 billion, $1.4 billion just by breaking up one ring of false billing.

I do not think our numbers are accurate. We say Medicaid improper payments are $13 billion. I think it is that in New York State alone based on what I am looking at and what I am seeing.

Do we really have a handle? And what we really know is we really do not, especially in the bigger programs. And there is some things we are going to talk about with OMB in terms of, with the direction that has been given, we allow NASA to use anything under $500 million is not to be looked at. Well, that cannot be right. And that certainly is not what we intended.

The impending financial crisis that we are seeing a little peak right now, as the world looks at the value of our dollar and whether or not we can repay the borrowings under which we are trying to operate for the next generation, it is really going to become important that you all in all your areas of expertise cut no slack in this area.

And I know each of you are dedicated to that, but I think the biggest problem is that we do not really yet know how big the problem is. We still have lots of agencies that are not even about doing the first things to develop how big the problem is.

So when we look at the number, what we know is the number is not right. And, the one thing as an accounting major is it is the old computer adage, if the numbers we are putting in are not right, the numbers we are going to get out are not going to be right as well.

So, when we are looking at a portion of the pie, granted we are looking at a bigger portion of what we did, and that is to all of you, you should be complimented in terms of we are making progress, but it is not near to the level that we need to be, and it is not to the degree we need to be.

And I compliment Senator Carper in working with us on this new bill. We are not quite comfortable yet, I am not, in terms of how aggressive I want it to be, and how, because of what we have seen, how we limit some of the flexibility in this.

But nevertheless, I think it is a very important that we are moving in that direction, and I thank him for it. And I will redirect most of my questions and my statement as we get into the questions. Thank you.

Senator CARPER. Thank you, Dr. Coburn.

Our first witness is Daniel I. Werfel, the Acting Controller of the Office of Management and Budget. And in that position, I understand that you lead OMB's efforts to improve government-wide financial management improvements and oversee work in priority management areas such as property management, one that we are very much interested in, and thank you for your help, and in improper payments, too.

I understand you hold a master's degree in public policy from Duke and a J.D. from the University of North Carolina. That is an interesting juxtaposition—I think I have mentioned that before—and you were a starting quarterback at the University of Florida. That is quite a triumph for a guy——

Mr. WERFEL. I get around.

Senator CARPER. You do. You get around—spread pretty thin. But we are happy you are here. Thank you for being here again today, and it is nice to see you again.

And we also are pleased to welcome back McCoy Williams. It is a good thing you do not charge us by appearance before this Subcommittee. We would be broke.

But we are happy that you are back, and we appreciate very much the work that you and your colleagues at GAO do with us in this effort and others, but I am told you are the Managing Director of the Financial Management and Assurance Team in the U.S. Government Accountability Office. This team is GAO's largest unit with oversight of financial management and audits across the Federal Government.

Mr. Williams has over 27 years of experience on these issues, and he has received numerous GAO awards, including the Distinguished Service Award for Exemplary Leadership. He holds an M.S. in Accounting from Virginia Commonwealth and is a CPA.

And with that said, gentlemen, we see you not as the enemy, but as our colleagues on this initiative, an important initiative, and we are delighted to have you here today.

I am going to ask Mr. Werfel to be the lead-off hitter, and then we will turn it over to Mr. Williams.

And your entire statements will be made part of the record. Feel free to summarize as you wish. Thank you.

STATEMENT OF DANIEL I. WERFEL,[1] ACTING CONTROLLER, OFFICE OF MANAGEMENT AND BUDGET

Mr. WERFEL. Thank you. I would like to begin by thanking Chairman Carper and Ranking Member Coburn for having this hearing today and inviting me to speak.

Four years ago, the President and Congress charged Federal agencies to identify, measure, and eliminate improper payments across government. In each of these areas—identification, measurement, and in elimination of improper payments—significant results have been achieved.

Today, OMB issued our annual report on improper payments that summarizes results from Fiscal Year 2004 and outlines a path forward for addressing ongoing challenges and building on the results achieved to date.

I would like to begin by briefly going over the results for 2007.

First, in terms of identifying improper payments, under the current legislative and regulatory framework, Federal agencies are expanding the universe of high-risk programs that are measured and are audited each year.

Agencies identified $1.9 trillion in program outlays to be measured for improper payments and subjected an additional $330 billion in high-risk contract payments for recovery auditing.

This means that 80 percent of all Federal outlays are being actively measured and/or reviewed for improper payments.

Second, in terms of measuring improper payments, the Federal Government is making steady progress toward closing all reporting gaps so that the full extent of government-wide improper payments will be available in the next few years.

[1] The prepared statement of Mr. Werfel appears in the Appendix on page 47.

Agencies are reporting measurements on 85 percent of all program dollars deemed high risk for improper payments, including 14 programs reporting error measurements for the first time this year.

Third, in terms of eliminating improper payments, once an agency has identified and reported improper payments, it has demonstrated the ability to implement corrective actions and reduce those errors in subsequent years.

The error rate for the group of programs that first began reporting in Fiscal Year 2004 has declined from an original high of 4.4 percent to 3.1 percent today. This represents a $7.9 billion reduction in improper payments.

Similarly, programs that first reported in Fiscal Years 2005 and 2006 have seen improper payments cut in half, representing a $2.3 billion reduction.

Now, we must look forward to Fiscal Year 2008 and beyond. We believe that we are well positioned to sustain current progress on the identification and measurement of improper payments. However, to eliminate the $55 billion in improper payments reported in Fiscal Year 2007, Federal agencies need additional tools.

Our top priority going forward is to obtain those tools through these following strategies.

We must start by maximizing the impact of our program integrity efforts. Nine programs account for 90 percent of the government-wide improper payment total. We must ensure that agencies are implementing effective improvement plans in these programs before initiating additional activities in lower-risk areas.

Within these nine programs, agencies must target the largest causes of error and utilize return on investment analyses to inform on the best uses of program integrity resources.

Where are the largest sources of improper payments? Today's OMB report concludes that the largest source of error is the inability of programs to verify eligibility information. In fact, program eligibility errors account for approximately 80 percent of government-wide improper payments and are a primary cause of error in our largest nine programs.

Our report also identifies, thankfully, the most effective approach for addressing this problem and that is through verifying applicant data with third-party data sources.

The President's budget, therefore, proposes several initiatives that will expand agency access to third-party data sources in programs such as unemployment insurance, which is one of the nine programs that I mentioned earlier, and we need Congress to support these proposals for expanding access to third-party data sources.

Congressional action is critical, not only for data matching, but for other tools that agencies need to eliminate payment errors.

Specifically, each year since 2003, the President has proposed discretionary funding for activities with a proven track record for reducing error and generated program savings.

These proposals are often referred to as cap adjusted funding. Despite anticipated savings of nearly $4 billion over 10 years, Congress has enacted only a small portion of these proposals and did so only in 2006.

When the cap adjustments are combined with the President's other proposed legislative reforms for improving payment accuracy, the anticipated savings total approximately $18 billion over 10 years.

Thus, for every year that these proposals are not enacted, the Federal Government and, therefore, the taxpayer loses approximately $1.8 billion in unrealized error reductions and savings.

The Congress and the Executive Branch must work together to expand access to third-party data sources to verify applicant eligibility, to fund and implement program integrity activities with a proven track record for eliminating error, and to enact legislative reforms that facilitate error reduction in our highest and larger dollar programs.

Initiating these improvements will be essential if we are to meet the President and Congress charge to eliminate improper payments.

Thank you, again, for the opportunity to testify today, and I look forward to answering your questions.

Senator CARPER. Good. Thanks very much, and I look forward to coming back and just revisiting, among other things, the things that you need for us to do at our end of Capitol Hill.

OK. Mr. Williams, your whole statement will be made part of the record. Feel free to proceed. Thank you.

STATEMENT OF MCCOY WILLIAMS,[1] MANAGING DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE TEAM, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. WILLIAMS. Thank you. Mr. Chairman, Dr. Coburn, thank you for the opportunity to be here today to discuss agencies' efforts to address key requirements of the Improper Payments Information Act of 2002 and the Recovery Auditing Act.

Since 2000, we have issued a number of reports and testimonies aimed at raising the level of attention given to improper payments.

In addition, OMB has played a key role in the oversight of the government-wide improper payments problem. For example, in 2005, OMB established eliminating improper payments as a new initiative under the President's Management Agenda.

OMB also continues its commitment to address government-wide improper payments by working with the agencies to establish corrective action plans and address their root causes.

Mr. Chairman, Fiscal Year 2007 is the fourth year that Federal agencies were required to report improper payment information. Agencies reported improper payment estimates of almost $55 billion in their Fiscal Year 2007 PARs or annual reports, an increase from the Fiscal Year 2006 estimate of about $41 billion.

The reported increase was primarily attributable to the Medicaid program reporting improper payments for the first time.

We view this as a positive step to improve transparency over the full magnitude of improper payments. The $55 billion estimate consists of 78 programs in 21 agencies and represents about 2 percent of total Fiscal Year 2007 Federal Executive Branch agencies' government outlays of almost $2.8 trillion.

[1] The prepared statement of Mr. Williams appears in the Appendix on page 53.

In addition, the $55 billion largely consists of improper payments made in eight large programs, such as Medicaid and Supplemental Security Income. Collectively, the eight programs account for about 88 percent of the total estimate.

Mr. Chairman, while showing progress, major challenges remain in meeting the goals of the Act and ultimately improving the integrity of payments.

For example, not all the agencies reported conducting risk assessments of all of their programs or activities as required by Improper Payments Information Act (IPIA). Also, for risk assessments conducted, we and selected OIGs have raised concerns regarding the quality of the risk assessments performed. Further, the total improper payment estimate does not yet reflect the full scope of improper payments, as agencies have not estimated for 14 risk susceptible programs with outlays totaling about $170 billion.

Additionally, non-compliance issues continue to exist. For example, some agencies did not measure improper payments for a 12-month period, as generally required by OMB's implementing guidance, nor did the estimates reflect improper payments for the entire program.

Agencies also reported that statutory or regulatory barriers may limit corrective actions to reduce improper payments.

Mr. Chairman, with regards to recovery auditing, 21 agencies reported identifying about $121 million in improper payments for recovery and actually recovering about $87 million, a decrease of about $217 million when compared to the reported amount identified for recovery in the prior year.

Most of the decrease can be attributed to DOD's decision to stop reporting voluntary refunds received from contractors.

Mr. Chairman, I would like to emphasize that effective internal control calls for a sound ongoing invoice review and approval process as the first line of defense in preventing unallowable contract costs. Prevention is always preferred to detection and collection.

In closing, we recognize that measuring improper payments and designing and implementing actions to reduce them are not simple tasks. Further, while internal control should be maintained as the front line of defense against improper payments, recovery auditing holds promise as a cost effective means of identifying contractor overpayments.

We are pleased that agencies are identifying and reporting on more risk susceptible programs and have reported that overall program error rates have decreased since IPIA implementation. Yet we also note that both we and agency auditors continue to identify deficiencies in agencies' efforts to comply with IPIA.

Successfully meeting the requirements of IPIA and the Recovery Auditing Act will require sustained attention to implementation and oversight to monitor whether desired results are being achieved.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions that you or other Members of the Subcommittee may have. Thank you.

Senator CARPER. Thank you very much, Mr. Williams.

Mr. Werfel, I think you said in your testimony that about 80 percent of the outlays are now covered. What was—$1.7 trillion?

Mr. WERFEL. One point nine trillion dollars in outlays are currently identified as high risk on the program side. And on the contract side, we are reviewing an additional $330 billion in contracts each year.

Senator CARPER. OK. So under the law, do you have to look at high-risk program sources, is that the way it works?

Mr. WERFEL. Yes. The law basically establishes a requirement that agencies break up their outlays into two buckets. One are the low risk and the other are the high risk. And, as you mentioned in your opening remarks, OMB in our guidance indicates that the definition of a high-risk program is one that has a 2.5 percent error rate and $10 million in error each year. That is the assessment that the agency makes, and if they make that assessment, then all the requirements of the law trigger, going out and statistically sampling and measuring those programs, implementing corrective actions, etc. And under that framework, even with the $10 million and the 2.5 percent, we are still seeing agencies identify a tremendous amount of programs and outlays and activities as high risk, as I mentioned $1.9 trillion out of the $2.8 trillion in total Federal outlays.

Senator CARPER. All right. What is still out there that we have not covered? You said 80 percent of our high-risk outlays are now covered? Just describe for us the ones that are not. I seem to recall it is Temporary Assistance for Needy Families (TANF) and——

Mr. WERFEL. Yes. Well, those programs have been identified as high risk. The $1.9 trillion figure that I provided are all those programs that are in a universe of programs that need to be measured.

Now, we have not measured all of them. We have measured 85 percent of all those outlays. And the remaining programs that still need to be measured are the programs that you mentioned. There is TANF. There is the Child Care Development Fund. There is the non fee for service components of Medicaid. There is Medicare Part D Prescription Drug and a couple of other programs.

The Department of Homeland Security identified 12 new programs this year as being high risk and because this was the first year they have been identified, we do not have measurements for them yet, but will in the coming years.

Senator CARPER. So when we say—I want to make sure I have got this right—$2.8 trillion of overlays overall?

Mr. WERFEL. That is correct; $2.8 trillion.

Senator CARPER. And they are not all high risk?

Mr. WERFEL. Not all of them are.

Senator CARPER. Of that $2.8 trillion, how much would be high risk?

Mr. WERFEL. One point nine trillion dollars in program dollars; $330 billion in contract payments.

Senator CARPER. So a little over $2.2 trillion would be high risk?

Mr. WERFEL. That is correct.

Senator CARPER. Of that $2.2 trillion, 85 percent agencies are actually beginning to measure?

Mr. WERFEL. They are actively measurement. We are reporting a measurement for 85 percent of all the programs that have been determine high risk, and——

Senator CARPER. And out of that 85 percent of the $1.9 trillion, we have determined that in 2007, there is $55 billion worth of improper payments; is that right?

Mr. WERFEL. That is correct.

Senator CARPER. All right. And what additional programs come on line in 2008?

Mr. WERFEL. The 12 programs for the Department of Homeland Security will be coming online next year. And—let me see—Temporary Assistance for Needy Families will be coming online, Child Care Development, and then the Managed Care and Eligibility portions of Medicaid and State Children's Health Insurance Program (SCHIP).

So a significant chunk of the remaining programs will be on. The only remaining programs after next year that will be left to measure and report on will be Medicare Advantage Part C and Medicare Prescription Drug Part D. And those we are targeting a Fiscal Year 2010 report date.

So as I mentioned, right now, of the $1.9 trillion, 85 percent we have an active measurement on, and that is the $55 billion. By next year, we will have over 90 percent of that $1.9 trillion measured and reported on.

Senator CARPER. I think I understand. Good. You mention in your testimony, you talked about a couple of the largest sources of error, and I think you mentioned that ID benefit eligibility. Just give us a couple of examples of that.

Mr. WERFEL. Well, many of the programs that I—remember I said that there were nine programs that make up 90 percent, and those programs, just to rattle off some of them, Food Stamps, public housing, Medicaid—those programs are what we call—or Social Security—those are means tested programs where the program has to make a determination of whether certain eligibility criteria are met.

And typically, the way those programs are designed, a person is eligible based on their income status, their work status, their household status, and it is verifying that information is being reported to the Federal agency accurately is our number one challenge.

So an individual comes to apply for a benefit, and let us say the eligibility criteria are that the adjusted gross income for that individual's household has to be $50,000 a year or less. And that individual reports a $45,000 adjusted gross income for their household.

Well, when we sample these payments and we go down and we find whether we made mistakes or not, we often find that individuals are underreporting their income, or, if they are not underreporting income, we are taking in the income information wrong, however the mistake happens. We do not have an accurate assessment of what that individual's income is, and there are methods that we can use to validate that information that we are not currently utilizing today.

I think one of the simple-to-understand examples is with the unemployment insurance program. When individuals go back to work, we need to stop paying them unemployment insurance. And often, they get back to work. The Department of Labor does not realize in time that they are back to work, and we are still issuing them

unemployment checks. And how do you fix that? And that is one of our challenges, and we believe that these types of third-party data sources, where we can go out and validate that John Smith on December 15, was he working or not, before we make that payment, that is the type of things we need to do. And as an example, one of the President's Budget legislative reforms is to enhance a current database that is out there right now to improve the Department of Labor's ability to go out and get that information on accurately determining someone's work status.

Senator CARPER. In my last term in the House, in 1991 or 1992, one of the things that we worked on was trying to make sure that folks who were applying for affordable housing, public supported housing, to make sure that they were eligible by income. We had some folks that did not report their employment status and their income. We wanted to try to make sure that a benefit that was scarce and that is affordable housing, public housing, was made available to people who were truly needy.

And what we ended up doing was to try to go through the Department of Labor to find out who is working and to get information that as timely so that when people went to work we could get the information quickly for program verification.

I think that is the kind of third-party initiative that you are interested in getting some help on.

But my time has expired for this round. I want to come back and just go back to that point, particularly to focus on how can we be helpful with respect to the Administration's initiatives in this regard and other related ways. How can we be helpful in making sure that the agencies have the tools to do their jobs, including the benefit eligibility piece?

All right. Thank you. Dr. Coburn.

Senator COBURN. Thank you. The last thing we want is makework for the agencies, and the OMB cited the change that actually—you changed the annual review.

What statute or regulation do you use to cite the authority to deviate from that was required by this law for an annual review? What did you all use to give you the authority to change what the Congress has said about annual reviews?

Mr. WERFEL. Dr. Coburn, let me first clarify that I have the right deviation in mind. Are you referring to——

Senator COBURN. From the risk assessment.

Mr. WERFEL. From the risk assessment. OK.

We look at the Improper Payments Information Act as establishing at its outset a risk management framework. It requires agencies to not look at every dollar across the board and trigger all these activities, but to do a risk assessment and break things up into low risk and high risk.

Once a program is identified as low risk, the agency looks at it and says we have information available to us based on the complexity of the program, based on the number of times Federal funds change hands, etc., whatever process they go through. They have identified as low risk, and then we had a question to ask ourselves in terms of how to implement the bill.

Once it has been designated as low risk, what should we require the agencies to do each year in order to continue to validate its low-risk status.

Senator COBURN. I do not have any problem with that. Where did you get the authority to change what we told you to do? What did you use to say—what we said in the law is we require you to make a risk assessment yearly, not every 3 years, regardless of what you have done, that is what the law said?

All I am asking is where did the authority come to change that? What do you cite as an authority? I am not saying it is not common sense. I am not disagreeing with it. I am just saying where did you get the authority to do that?

Mr. WERFEL. We believe that the authority is in the Improper Payments Information Act. It is the provision that requires a risk assessment generally, and our interpretation of that provision and we may have differing interpretations. Our interpretation of that provision is that once a program is designated low risk, we are not telling agencies to ignore that program and to put it out of their minds completely.

We require in our guidance that agencies have to reevaluate that program if exigent factors or new factors emerge, like the program changes or there is an influx of money into that program or conditions change, and it is the fact that the agencies have to keep apprised of potential changes, because they have done a baseline risk assessment and found it low risk.

Senator COBURN. Yes. But let me use a specific example. We had a hearing about CDBG block grants. We had a great look at it. This is somebody that is low risk, and yet in our hearing, the Inspector General found $100 million in fraud and abuse and only 35 of the 1,080 grantees. That is just at the first 35 they looked at—$100 million in fraud.

And yet, under your program, it is low risk. They do not have to do another risk assessment.

So where do we catch this so that this falls back in? I am not critical that you say people. We do not want them to keep doing the same thing. But here you got CDBG block grants, with $100 million out of the first 35 programs that they looked at of fraud and documented fraud, and yet, they fall outside of what your guidance is to say that they do not need to do a risk assessment. And yet, it is $100 million going out the door every year.

How do you firm that up? You are trying to accomplish something on the front side to not give anybody make-work, but how do we catch it on the backside when it obviously missed it, and we want to pick it up?

Mr. WERFEL. That is a good question. The way we would focus on this problem going forward is the risk assessment that initially designates a program as low risk needs to have been sound; otherwise the framework that I just outlined does not really work that well.

Senator COBURN. So where does HUD fall back in this, because under your guidance right now HUD is not under. They do not have to do a risk assessment even though they had $100 million run out the door?

Mr. WERFEL. There is flexibility in the guidance, and we have implemented that flexibility to target certain programs that, even though they are designated for low risk, that we require the agency to go back annually and we do not provide them this type of ability to do the full-scope risk assessment each year. And CDBG is one of those programs.

Senator COBURN. So it is not going to fly under the radar? It is coming back in. It is going to be relooked at?

Mr. WERFEL. Yes. Absolutely. And really what we need is a partnership between OMB, GAO, and the inspectors general to identify the CDBGs in the world, where there are questions about that initial risk assessment.

Senator COBURN. Yes.

Mr. WERFEL. If an agency made a good initial risk assessment and then no environmental factors changed and the IG, GAO, OMB, and Congress were all not seeing things that need to be extra focused on, we are comfortable generally in allowing the agency to move forward, and a full-scope risk assessment every 3 years.

But programs like CDBG, where in partnership, we can pinpoint and say I know you risk assessed it low, but it does not add up when you look at other factors that we consider at play; risk assess it again.

Senator COBURN. Yes.

Mr. WERFEL. And that is what is going on with CDBG right now.

Senator COBURN. Yes. But you would admit you could, under the way you all do it, you could get low risk, but there could still be fraud?

Mr. WERFEL. Yes.

Senator COBURN. OK. So, for example, it is really important that Congress do oversight; is it not? I mean, had somebody not asked for this IG look, had we not had the Subcommittee look, would we have found this? The real question is would we have seen this $100 million going out the door had somebody not said IG do a look at this and let us have a hearing on it.

And so, which is the point I try to make to my fellow Senators all the time. The reason that we have as many problems as we have is we are not doing enough oversight to look at to see where the problems are; asking the right questions.

Let me go to one other area. I still have a little problem with your risk assessment threshold, this 2.5 percent, and I think that is going to be identified in what Senator Carper is planning in terms of legislation, but is there not areas where we are missing things when we have the threshold that you all have designed, and I know we have been over this, but kind of help me with that, if you would?

Mr. WERFEL. Certainly. There is a couple of factors at play. So, as I described, we have a current framework, where we have this 2.5 percent and $10 million.

OMB's guidance goes beyond that and says if we know about a program that has a low error rate, but high improper payment dollars, then we are not going to let the agencies off the hook for those programs.

So it is not an automatic exemption if you hit those two categories. And the way the results have played out, back in 2004, under this framework, agencies were identifying $1.4 trillion in high risk. And that was at about 60 percent of all outlays.

That was quite stunning in and of itself; that even with this framework, you had $1.4 trillion being caught and saying yes, this is a problem. This is high risk.

Since 2004, now we will flash forward to 2007, now we are at $1.9 trillion, and what you see, as I had mentioned earlier, DHS and the Department of Justice designated 12 programs high risk. And other agencies are coming forward with additional high risk programs.

We look at those numbers and those trends, and we say the framework is working, because $1.4 trillion right off the bat was quite impressive in terms of a net to cast, but since then, and over time, the process is still generating more and more looks. And I have to compliment the Government Accountability Office, and when I talked about partnership, they were the ones who shook their head at DHS and said something is not adding up.

You are risk assessing these things as low. Go back again. And that was all GAO.

Senator COBURN. Well, the one that comes to mind to me is NASA. Do we really feel comfortable that NASA has no payment problems? I mean, does anybody in the room want to stand up and say NASA has no payment problems and, yet, that is what they have reported? They have no high-risk programs? I mean, can we really accept that with the amount of money they spend? There is no fraud in contracting. There is no significant improper payments made by NASA. Can we really say that and can we believe it?

Do we believe it? I mean, does OMB believe it?

Mr. WERFEL. No, we do not. But we would categorize NASA as, in looking at NASA's expenditures, they are spending a predominant amount of their money on contracts. So distinguished from the earlier programs—food stamps, public housing——

Senator COBURN. Yes.

Mr. WERFEL [continuing]. The benefit payment world, which we believe is that is the sweet spot for the IPIA, where NASA's expenditures are it is in all the contracts that they expend on, and that is really the Recovery Auditing Act.

And under the Recovery Auditing Act, NASA absolutely is responsible under the threshold in the current bill, which is $500 million a year in contract payment, they are absolutely on the hook to be doing a thorough review and to be implementing Recovery Auditing Act procedures, and the unfortunate thing that occurred this year was that NASA did not get off the dime quick enough and start up their Recovery Auditing Act process. And it was too late by the end of the year to get the process started, and so for 2007, they had a significant gap in their reporting.

Believe me, that did not go undetected by OMB. We are very concerned about that. We are putting a lot of focus with NASA on getting back on track, and we anticipate that in 2009 we will see a very thorough review of the contract dollars.

Senator COBURN. My time has expired. I just want to make the last point, and then I will not ask a second round on this.

The President in his wisdom put in CFOs everywhere; right? Everywhere. That is their job. Somebody ought to be hanging if there was no recovery audit at NASA.

Senator CARPER. Well, I do not know that it was the President in his wisdom.

Senator COBURN. Somebody did.

Senator CARPER. It might have been Senator Bill Roth, my predecessor, who I think might have been the lead sponsor of that in the Senate.

Senator COBURN. It happened. Let me just say that.

Senator CARPER. A Congressman, one of his colleagues from Delaware might have been working on it with him over in the House. I do not know.

The President was at least smart enough to go along, and we sort of worked together. One hand washes the other in this stuff.

I want to come back, Mr. Williams. Let me just sort of telegraph my pitch, so you will have a chance to think about this, but I want to come back and ask you to give us some thoughts on the recovery of some of these monies that have been improperly paid. And just some things that we ought to be doing that we are not doing well; some things that we can do better on that front.

But while you think about that, let me just go back to Mr. Werfel and ask you to return with me, if you will, to the discussion we were having about benefit eligibility and that sort of thing.

And apparently, there are a number of things that the Administration has asked the Congress to do in this regard, and it sounds like you are getting a little bit of help, but not as much as you would like to have.

What are some things you all have been asking for that you have gotten that we have done a decent job in supporting. What are some things you are asking us to do where you have not gotten the kind of support that you would like to have?

Mr. WERFEL. Well, as I mentioned earlier, we are looking at the data and trying to make smart strategic decisions about how to tackle the $55 billion, and the nine programs, as I mentioned, make up the $55 billion.

And so what we have asked agencies to do is to help us figure out the root causes of error in those programs and what kind of tools they need to be most effective in rooting out error.

And what the President's budget does is it encapsulates and OMB's Improper Payments Report encapsulates what we believe are the critical tools that we do not have now.

Let me walk through some of them. The first, as I mentioned in my opening remarks, are what we call cap adjustments, which is not plain language and nobody outside the Beltway knows what that means.

But what essentially it is is it is program integrity dollars to do activities that we have looked at, and we said if we spend this money, it is going to have a positive return on investment for taxpayers. A dollar spent will return more than a dollar in terms of error reduction and savings.

So we have asked agencies to explore—do you have things that you could be doing that you are not doing today that would have this type of return?

And the Social Security Administration, who is going to testify today, is a best practice model agency at this. Their return on investment analysis for the Supplemental Security Income Program, which is one of the big nine programs, is based on an actual past experience. It is very rigorous.

We have briefed many members of the Hill and staff on it, and everyone has been impressed by the level of rigor in the analysis. Some of those activities are upwards of one dollar invested on an $11 return.

And what it is, in going back to that primary cause of error in terms of eligibility, what Social Security needs to be able to do that they are not doing today enough of are things like continuing disability reviews and redeterminations, because as people are receiving benefits, because they were initially found eligible, they do not always stay eligible. They get healthy. They get more money, whatever happens.

But if they stay on those rolls, those are improper payments, and Social Security currently does not have the funding that they need to do all the continuing disability reviews and redeterminations to capture all that.

And the President's budget proposes a level of funding that is going to get Social Security up and running to do those things. And the result is for Social Security alone, you are looking at approximately $2.6 billion in savings over 10 years.

Similarly, we have similar types of program integrity funding requests for HHS, Health Care Fraud and Abuse; for IRS Tax Enforcement; and for the Unemployment Insurance Program. And that is where—and these requests have been in the President's budget since 2003, and again, they seem to fall out somewhere along the line during the appropriations process.

And what we have tried to do—the reason why it is called cap adjusted is because we have tried to put a protected fence around it so that it does not really impact spending limits or what are known I guess as 302(b) allocations in the appropriations process.

And if we can get that commitment from Congress up-front that money is protected and is not going to be negotiated around come appropriations time, that is the kind of thing we are looking for, because again, it has that return on investment.

We have additional legislative proposals beyond just these activities. I mentioned one of them earlier, and that is enhancing our third-party data sources in the UI Program, Unemployment Insurance. We want to be able to know immediately or as soon as possible when people are going back to work so we can stop those unemployment checks from going forward.

So we have a legislative reform to do that. That, if we can get that one going, is $3.6 billion over 10 years. The Earned Income Tax Credit——

Senator CARPER. How much over 10 years was the last one?

Mr. WERFEL. The Unemployment Insurance?

Senator CARPER. The last one. Three point——

Mr. WERFEL. $3.6 billion over 10 years.

Senator CARPER. Over 10 years; right. Give us some idea, Mr. Werfel. That is how much? Is that a net number or is that costs after investment?

Mr. WERFEL. No, there is no up-front. To distinguish it from the program integrity cap adjustments, those required up-front investment of dollars. They just have a return on investment.

The reforms that I am going to go through now, and I will try to do it quickly, are no up-front investment. It is just a change to the law. It is creating a new data element and database. It is changing the way the eligibility formula works, sort of simplify it, different approaches like that—tools to give to the agencies. No additional funding.

Senator CARPER. Would you describe this as low-hanging fruit?

Mr. WERFEL. I would definitely describe it as low-hanging fruit. It is our first major cut at what we think we need to do to impact the $55 billion in a big way.

Senator CARPER. Why do you suppose the Congress has not picked up on it? I guess it is the appropriators? It sounds like it is the appropriators. Why do you suppose we have not picked up on it to date?

Mr. WERFEL. I think we have gotten—with respect, the appropriators certainly are the responsible authority for the cap adjustments, and we have done a lot of work with the staff up there, and have had briefings, and really pushed it and tried to make it a significant priority.

It seems to fall out at the end. It seems to not survive those last-minute negotiations on things like the Omnibus.

So, for example, last year's budget resolution, it was in there, and we were doing a celebration back at OMB, because we figured if it was in the budget resolution, it was a pretty good chance that it was going to be in the final appropriations bill. But again, the way the appropriations process played out this year, always is a unique and challenging situation and it fell out at the end.

So I think there is interest. I think it is just we have not been able to get across the end zone line so to speak.

Senator CARPER. Yes. Well, the President will be submitting his budget I guess in a couple of weeks? Sometime in April or so I expect that Congress will try to grapple and come up with a budget resolution. It sounds like that we included in the budget resolution roughly 8, 9, 10 months ago for 2008, these initiatives, the authorization, the expectation that we do this, and then when the actual money has maybe been appropriated, we did not follow through?

Mr. WERFEL. That is correct. It did not——

Senator CARPER. Is that right?

Mr. WERFEL [continuing]. Make it into the final bill.

Senator CARPER. I would just say to my friend, Dr. Coburn, we may have a great opportunity here to follow up.

Senator COBURN. I like amending the Appropriations Bill.

Senator CARPER. I know it is something that is hard for you to do, but all right.

Well, that is real helpful. Let me go back to Dr. Coburn. I know you said you did not have anymore questions for this panel. Anything else, because I want to ask Mr. Williams a couple of questions.

Senator COBURN. Actually, I have some questions, but I will submit them because of our time.

Senator CARPER. OK.

Senator COBURN. And I have a Judiciary hearing starting at 4 p.m.

Senator CARPER. OK. I understand Senator Levin is on his way, and he would like to ask a couple of questions. I think his quote was I would want to grill these two witnesses. Do not let them get out of the room.

No, he did not say that, but it gives me the chance to ask Mr. Williams to visit with us again this issue of recovery and somewhere in my prepared questions I have a question on this, and if I have enough time, I will dig into it.

But what are we doing well on recovery and what are we not doing well on recovery?

Mr. WILLIAMS. Well, Mr. Chairman, if you remember, the first year that I testified and talked about recovery auditing, the numbers were very small relative to the amount of contracting activity in the Federal Government.

Over the years, while the number is down this year, we have seen the amount identified and actually recovered to be going up this year with the point that we make about money that is automatically returned has been excluded in the DOD component of the number.

Senator CARPER. Explain that change in DOD. Just explain that to me. I do not understand.

Mr. WILLIAMS. Basically, if I am a contractor and you owed me $10, you paid me $20, and I returned the $10 to you before being asked, just voluntarily returned that $10 to you, then it is not reported as being recovered is the difference according to my understanding.

Senator CARPER. OK. God bless those contractors, those defense people.

Mr. WILLIAMS. And may I add to that is that even though it might not be reported as a component under the Recovery Audit Act, there was still an improper payment made in that case. In GAO's views amounts collected and identified under the Recovery Auditing Act, they are improper payments also.

You asked for some general thoughts about the program and basically if you have got a recovery auditing program and if it is free, then my statement to that is let us implement it everywhere. It is not going to be free. There are some costs associated with setting up the program, etc. But we believe that it should be utilized to the greatest extent possible, and it should follow the concept that was mentioned earlier during the discussion, and that is you need to look at it from a cost benefit standpoint.

And as I have always stated before this Subcommittee with regards to this particular issue is that you should never spend a dollar and one cent to collect a dollar. So it should be cost effective.

So those are a few thoughts that I have on the program.

Senator CARPER. All right.

Senator COBURN. I have a question.

Senator CARPER. Go right ahead, please.

Senator COBURN. What happens, if anything, for an agency that does not comply with the law or OMB guidance right now on improper payments?

Mr. WERFEL. Currently, there are two particular implications that come to mind. First, the independent auditor would include in the audit report a finding of indicating non-compliance with that particular law or regulation.

And second, the impact from an OMB standpoint is we would downgrade their score in the President's Management Agenda——

Senator COBURN. All right.

Mr. WERFEL [continuing]. And make that public.

Senator COBURN. OK. All right. Thank you.

Senator CARPER. We have been joined by Senator Levin, and we are glad to recognize you at this time. Thanks for joining us.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you, Mr. Chairman. Let me add my welcome to our witnesses. Many of the overpayments that were targeted in the GAO report involved payments of relatively small amounts to individuals such as payments for school lunches, Social Security checks, and payments under the Earned Income Tax Credit Program. And that is well and good.

But there is another whole category of improper payments involving hundreds of millions of taxpayer dollars that receive very little attention, and those are the overpayments, double payments, and other type of mistaken payments that are made by Federal agencies using taxpayer dollars to vendors and contractors.

Those type of payments happen all the time, but the information on the extent of that problem and what is being done to recover those payments that do not receive as much attention in the GAO report or the OMB testimony is apparently—and I am sorry I missed it—for instance, take a look at Appendix II of the GAO's prepared statement, item four, involving the Department of Defense.[1]

The chart shows that in 2006, the DOD identified $550 million in improper payments under the category of commercial pay, which means payments made to vendors or contractors.

So that is half a billion dollars in improper payments. In 2007, however, the figure disappears. And the category for commercial payments shows zero and my staff has been told that the Department of Defense did not report any figure in 2007 for this category because at least as a possibility the Department was advised that vendor and contractor payments are not covered by the Improper Payments Information Act.

Now, that is not my understanding of the Act, and I am just wondering, GAO, what is your interpretation of the Improper Payments Information Act? Should Federal agencies be reporting improper payments to vendors and contractors as well as improper payments to employees or program beneficiaries?

Mr. WILLIAMS. Senator Levin, as I stated just before you came in, it is GAO's opinion that those categories of activities that you just described, we call those improper payments also, and they should be included under the requirements of IPIA.

[1] The chart referred to by Senator Levin appears in Appendix II of GAO's prepared statement that appears in the Appendix on page 81.

Senator LEVIN. All right. Now, if this territory has been covered, I am not going to repeat it.

Senator COBURN. Go ahead. We covered it on recovery audits, but we did not talk about it at this point.

Senator LEVIN. OK. All right.

Now, why did the Department of Defense decide to stop reporting a category of improper payments last year, which was about half a billion dollars? Mr. Werfel, do you know?

Mr. WERFEL. Well, I think that we might have a numbers question here, but let me tell you what I do know, and that is that under the Improper Payments Information Act, which came out and was enacted about the same time as the Recovery Audit Act. The Improper Payments bill requires agencies to do an estimate of their improper payments, and we interpret that to go out and pull a sample of payments and then extrapolate that sample to a universe and say what your payment error is; whereas the Recovery Auditing Act requires more of a targeted review—every risk payment and figure out whether their errors were.

And we look at that and say that makes sense to us.

For contracts, where have that type of control and direct knowledge of the specific things going on with those payments, we should be doing more universal look at every payment versus a Social Security or a food stamp situation where sampling makes more sense.

Senator LEVIN. Was that interpretation in effect in 2006?

Mr. WERFEL. It has been in effect, from OMB's standpoint and the way we have structured our guidance, since Fiscal Year 2004.

Senator LEVIN. So that there was zero in 2007 and half a billion in 2006?

Mr. WERFEL. According to, again, and I hope we do not have a numbers problem here, but according to my data that I have from the Defense Department, they subjected under Recovery Auditing Act $189 billion——

Senator LEVIN. No, I am talking about the Improper Payments Information Act. It was half a billion dollars in 2006 and zero in 2007; is that correct?

Mr. WERFEL. I am not aware of that. My information indicates that the Department of Defense did, in fact, report improper payments in their non-contract payments, such as military health and military pay, in Fiscal Year 2007, and I can get you those numbers.

Senator LEVIN. No, that is not what I am referring to, though. I am talking about vendor and contractor payments. According to my staff, in 2006 there was $550 million in improper payments under that category in 2006 and zero in 2007; is that what your data showed?

Mr. WERFEL. I do not have that information.

Senator LEVIN. Well, let's find out from Mr. Williams.

Mr. WERFEL. Yes.

Mr. WILLIAMS. Senator Levin, that is the information that we have pulled from the PAR Report, and I am just asking the staff right now if we can bring that up here, so we can take——

Senator LEVIN. All right. Assuming that my staff is right, and they have got a thousand percent——

Mr. WILLIAMS. OK.

Senator LEVIN [continuing]. Except when they do not, assuming that is true, what is the explanation, Mr. Werfel?

Mr. WERFEL. Well I would say, first of all, that I would hope that OMB in putting together our report that was issued today would pick on an outlier like that.

Our approach has been, and we have asked agencies to comply with, that for benefit and individual payments that they report under the Improper Payments Information Act and for vendor payments they report under Recovery Auditing. And for both——

Senator LEVIN. But you said that was true in 2006, too?

Mr. WERFEL. It has been true since Fiscal Year 2004.

Senator LEVIN. OK. Take a look at page 28 if you would then of this report?

Mr. WERFEL. I will.

Senator LEVIN. I am sorry—the GAO testimony.

Senator COBURN. Can I interject here for a second?

Senator LEVIN. Of course.

Senator COBURN. The guidance that OMB gives is 2.5 percent or $10 million. Well, $500 million is two-tenths of a percent. Therefore, they do not have to report, which is nuts.

Senator LEVIN. It is not only nuts. It is inconsistent.

Senator COBURN. Well, the footnote for that zero says that the Defense Department did not report.

Senator LEVIN. Yes, but my question is why. What changed?

Senator COBURN. I suspect it is because they do not fall under the 2.5 percent or $10 million rule.

Senator LEVIN. But did they not fall under the same thing in 2006?

Senator COBURN. Well, but once—again it is the 2.5 percent because it is such a small percentage even though it is $500 million, they have 2 years—they are not required under the——

We covered this before you came in.

Senator LEVIN. OK.

Senator COBURN. Under the interpretation, OMB's guidance to them. I don't know if that is right or not.

Senator LEVIN. No, I think I got it, but that may explain zero in 2007 that it is wrong guidance I think—I will not speak for anyone else in terms of the purpose of the Act. But that is not my question. My question is the same guidance you said was in effect in 2006?

Mr. WERFEL. Yes, and I need to—I think I am going to ask you to indulge me and let me get back to you on that, because I do not have that information at my fingertips in terms of why that number appeared in 2006 and did not in 2007.

Senator LEVIN. Right. And I understand what Senator Coburn is saying, and that is not an acceptable——

Senator COBURN. It is not an acceptable——

Senator LEVIN [continuing]. Interpretation for me, either, and I will not speak for our Chairman, but I agree with that. That is not acceptable, but it also seems to be a change in guidance of some kind between those 2 years, and I want to know if that is true, and, if not, what explains the zero. That is my question for the record. Thank you. And thank you for letting me buzz in this way.

Senator CARPER. No, not at all. Just before you arrived, we were in some back and forth with Mr. Werfel. He had mentioned in his

testimony that the Administration has asked the Congress to do a number of things through appropriations legislation and others to enable us to reduce improper payments and do a better job on recovery.

And it sounds to Senator Coburn and me as if we may have, we the Congress, may have used some of those initiatives in our budget resolution for pay fors, to reduce outlays over 5 years, over 10 years, to enable us to pay for other things.

But then, when it came time to actually do the appropriation, to follow up and make those pay fors possible, we may not have done that. And that is I think—that is fertile ground for us to work together and work with the Administration to make sure if that is indeed what happened, that we do not make that mistake again.

Senator LEVIN. Thank you, both.

Senator CARPER. Yes. Good to see you. Thanks so much for joining us. I have got a couple more questions for the record, Mr. Williams——

Mr. WILLIAMS. OK.

Senator CARPER [continuing]. And Mr. Werfel. Anything else, Dr. Coburn? All right. Gentlemen, again we appreciate your being back with us today. Mr. Williams, I understand you can stay a bit longer for the second panel. If you could do that, we would be most appreciative.

Mr. WILLIAMS. OK.

Senator CARPER. But thank you so much.

Mr. WILLIAMS. Thank you.

Mr. WERFEL. Thank you.

Senator COBURN. While you all are being seated, I have to go to a Judiciary Committee mark up.

I just wanted to express my appreciation for the work that you do. It is often not appreciated. The importance of it is often not recognized. This Subcommittee recognizes it, and although I will not be here to hear your testimony or ask questions I wanted you to know how much I appreciate it, and I think I am speaking for Senator Carper as well—the fine work that you do. And we have noticed progress in the last 3 years. I think you all have as well, and I think that should be noted. Thank you.

Senator CARPER. Dr. Coburn, keep them straight on that Judiciary Committee.

Mr. COBURN. I will do my best.

Senator CARPER. I know you will. Well, let me take a moment here to introduce our second panel. The first we have Charles Christopherson, Chief Financial Officer and Chief Information Officer of the U.S. Department of Agriculture. Who is the Secretary of Agriculture now?

Mr. CHRISTOPHERSON. The Secretary is now Ed Schafer.

Senator CARPER. How is he doing?

Mr. CHRISTOPHERSON. He is doing wonderful.

Senator CARPER. Not bad for an old governor, huh? Give him my best.

Mr. CHRISTOPHERSON. Great for a governor. He is a great guy.

Senator CARPER. Good. Well, we had a couple of governors there.

Mr. CHRISTOPHERSON. We have.

Senator CARPER. Yes. Prior to your confirmation by the Senate in 2005, you were a co-founder of a consulting firm that specializes in company turnarounds and cash management, and you hold an MBA from Oregon Executive MBA Program, and you are also a CPA. Welcome.

Next is Anthony Dale, Managing Director of the Federal Communications Commission and he has served in that position I am told for about 2 years?

Mr. DALE. Yes, sir.

Senator CARPER. All right. In that position, we are told you are responsible for the agency's operations and management functions, including the FCC's financial and accounting activities and that you worked at the FCC in a variety of management and staff attorney positions for about a decade?

Mr. DALE. Yes, sir.

Senator CARPER. Charlie Johnson is the Assistant Secretary and Chief Financial Officer for Resources and Technology at the U.S. Department of Health and Human Services.

Mr. Johnson previously served as a CFO of APA. He was also previously the president of the Huntsman Cancer Foundation and served as a member and as chair of the Utah State Board of Regents, which oversees all public institutions of higher education in the State.

He was also a chief of staff to the Governor of Utah. Which governor?

Mr. JOHNSON. Governor Leavitt, now Secretary Leavitt.

Senator CARPER. I have heard that name. I was with him on Monday night, though for the state of the States. Always good to see him. Served as chief of staff to Governor Mike Leavitt and served as Director of the Governor's Office of Planning and Budget for 2 years. In total, Mr. Johnson has spent 31 years in the practice of public accounting, having started at the age of 14.

Mr. JOHNSON. Exactly.

Senator CARPER. Finally, we have David Rust, the Acting Deputy Commissioner for Disability and Income Security Programs at the Social Security Administration, and formerly the Executive Secretary of the Social Security Administration.

When were you the Executive Secretary, Mr. Rust?

Mr. RUST. Actually, I still am.

Senator CARPER. OK. But you are not former. You are currently?

Mr. RUST. Correct.

Senator CARPER. All right. Mr. Rust has previously held a number of leadership positions in the Federal Government, including the Department of Health and Human Service and the Department of Agriculture. Who was the Secretary when you were at Agriculture?

Mr. RUST. Several of them. Secretary Espy, Secretary—get two or three of them in there.

Senator CARPER. OK. I am going to invite you all to proceed with your testimony, and, Mr. Christopherson, since I introduced you first, we will ask you to go first.

Your whole statement will be made a part of the record, and you can summarize as you see fit.

STATEMENT OF THE HON. CHARLES R. CHRISTOPHERSON, JR.,[1] CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF AGRICULTURE

Mr. CHRISTOPHERSON. Thank you, Mr. Chairman. Mr. Chairman and Ranking Member Coburn, and Members of the Subcommittee, thank you for your invitation to appear before you today to provide the Subcommittee with the status of the U.S. Department of Agriculture's progress on the President's goal to eliminate improper payments.

I am Charles Christopherson, the Chief Financial Officer and Chief Information Officer at the USDA. And my role as the Chief Financial Officer is to lead the Department's efforts in eliminating improper payments.

At USDA, we believe that eliminating improper payments is not only important but it is essential. The Department obligates about $100 billion of taxpayer's money annually through more than 300 programs worldwide.

Many of USDA programs operate through an extensive network of Federal, State, and local cooperators. We have a complex tapestry of systems. Many date back to the 1970s and 1980s. These old systems often require our employees to complete manual reviews of qualifying paperwork for USDA programs.

While we still face many challenges, USDA has made progress in identifying programs that are susceptible to significant improper payments.

In Fiscal Year 2006, we increased the number of programs measured and we clarified the measurement and reporting criteria for improper payments. Then in Fiscal Year 2007, USDA achieved a major milestone by measuring all programs with significant risks for improper payments.

This includes 16 programs with total outlays of over $72 billion. The measurement of these programs estimated that for Fiscal Year 2007 improper payments totaled $4.4 billion, an error rate of 6.1 percent. This is a decrease from Fiscal Year 2006 with improper payments of $4.6 billion and an error rate of 7 percent.

I believe it is important to note that this reduction occurred even though two additional nutrition assistance programs were measured and reported for the first time in Fiscal Year 2007.

In Fiscal Year 2006, we were transparent with both the Congress and our employees on the improper payment rates in the Farm Service Agency. This transparency, along with dedication of FSA's employees, helped us to decrease the rate of improper payments in their seven high risk areas in Fiscal Year 2007.

This progress was made through reinforcement of administrative procedures, implementation of checklists, and the implementation of data matching process with the Social Security Administration's Death Master File.

In Fiscal Year 2007, USDA's Food and Nutrition Service measured for the first time the National School Lunch Program and the School Breakfast Program. The estimated amounts of improper payments, including under and overpayments for the School Lunch Program, were $1.4 billion, an error rate of 16.3 percent. The esti-

[1] The prepared statement of Mr. Christopherson appears in the Appendix on page 88.

mated amount of improper payments, including under and overpayments for Breakfast, were $520 million and an error rate of 24.9 percent.

FNS has worked closely with OMB, Congress, the States, schools and advocacy group for two decades to better understand the improper payments in the Food Assistance Programs and to find ways to reduce them.

In an effort to reduce the number of improper payments, FNS has developed and requires annual training for schools on certification and accountability issues. FNS employees provide technical assistance to States and to schools to help: First, reduce the payments of the administrative errors; second, improve program integrity; third, improve compliance with program nutrition; fourth, improve compliance with menu planning standards; and, last, increase the accuracy of meal counts.

Through this same type of proactive partnership, FNS has seen improvements in food stamp program error rates that bring it to 5.99 percent. This improved performance reflects the effective partnerships with States administering—or the State administering agencies. Twenty-five States now have an error—or have payment accuracy rate greater than 94 percent.

USDA agencies often work together to reduce improper payments. The Natural Resources Conservation Service, the Farm Service Agency, Rural Development, and the Agricultural Marketing Service staffs meet monthly to discuss and resolve overlapping issues.

The result of this interagency communication and the program integration has reduced improper payments related to the conservation easements and farm subsidies.

We also continue to improve our processes and systems. As an example, the Department is currently in the midst of implementing a paperless invoice tracking and processing system that will improve the accuracy and efficiency, and thus reducing the risk of making improper payments.

Prompt pay interest should be dramatically reduced when this system is fully implemented.

In closing, I would like to thank the Subcommittee for this opportunity to share the status and progress of USDA on this important subject. We feel that in this last couple of years that we have seen some very dramatic changes at USDA as we have included additional programs and as we have also adjusted our guidance as a management team at USDA. So thank you, sir.

Senator CARPER. Thank you, Mr. Christopherson, and I look forward to coming back and asking you a couple of questions. Mr. Dale, you are recognized.

STATEMENT OF ANTHONY J. DALE,[1] MANAGING DIRECTOR, FEDERAL COMMUNICATIONS COMMISSION

Mr. DALE. Good afternoon, Mr. Chairman. Thank you for the opportunity to appear before you today.

In November 2007, the FCC reported for the first time an estimate of improper payments affecting one of our programs, the Uni-

[1] The prepared statement of Mr. Dale appears in the Appendix on page 96.

versal Service Fund. This afternoon, I will provide a summary of the steps we have taken to assess, measure, and address improper payments.

The Universal Service Fund (USF) helps to ensure access to telecommunications services for consumers in high cost and rural areas, and promotes access to advanced services for schools, libraries, and health care service providers in rural areas.

It consists of four programs: The High Cost Program, the Schools and Libraries Program, the Low-Income Program, and the Rural Health Care Program. The total annual size of the program is about $7 billion a year.

The Fund is administered by a non-profit corporation, the Universal Service Administrative Company, that receives and reviews applications for benefits, disburses funds to beneficiaries, and collects funds from service providers, and performs certain oversight functions under the oversight of the Inspector General.

In March 2004, the Commission performed a risk assessment and concluded that two USF programs, the High Cost Program and the Schools and Libraries Program, were at risk for improper payments.

To estimate improper payments, the Commission relied on the expert audit oversight of the Inspector General.

The Inspector General oversaw the completion of a statistically valid sample of audits of program beneficiaries and contributors. The IG's audits examined more than $825 million in disbursements and more than $450 million in contributions. This was the largest, most comprehensive examination of Universal Service Fund beneficiaries and contributors done to date.

The Inspector General concluded that, in general, the audits indicated compliance with the Commission's rules, although erroneous payment rates exceeded 9 percent in most USF programs.

The specific erroneous payment rates the IG identified were: 16.6 for the High Cost Program, 12.9 percent for the Schools and Libraries Program, 9.5 percent for the Low Income Program, 20.6 percent for the Rural Health Care Program, and 5.5 percent for Contributor payments.

The IG reported that improper payments to USF beneficiaries could be more than $900 million and incorrect payments from USF contributors could be more than $350 million.

The Inspector General plans to significantly expand the audit program in order to provide a more precise estimate of the error rate.

We expect that these upcoming audits would be used to determine the baseline of improper payments in the program. The IG identified several causes for improper payments, including inadequate document retention, inadequate accounting systems, weak internal controls, a lack of compliance with Commission rules, problems with the application review process, incorrect interpretation of program rules, data entry errors, and inadequate supervision of consultants.

We are concerned about the error rates the Inspector General identified. Our primary goal is to safeguard the Universal Service Fund so as to ensure the program works as Congress intended.

We are working hard to address the problem identified by the Inspector General.

First, we are working to recover any improperly disbursed funds. After the IG released his initial analysis of the audit results, we instructed the non-profit administrator to start recovering funds, and this process is currently underway.

Second, the Commission adopted rules that address many of the IG's problems that he had identified in the audits.

The Commission's new rules establish tighter document retention requirements, provide for a uniform standard for recovering improperly disbursed funds, provide for better oversight of the administrator, and provide stricter penalties for contributors who fail to make timely payments.

In addition, the Commission's new rules also allow the Commission to debar any party from continuing to participate in the program if they had defrauded any of the programs.

Third, we directed the administrator to carefully review the IG's audit results and recommend additional steps the administrator should take to prevent and reduce potential improper payments.

We also directed the administrator to identify any additional resources that may be needed to further safeguard the Fund. We are currently reviewing the administrator's reports to determine what additional actions may be required.

Fourth, the Commission tightened oversight of the administrator by establishing a Memorandum of Understanding to ensure the administrator performs its functions in an efficient, effective manner.

Fifth, program participants that violated the FCC's rules could be subjected to potential enforcement action.

And finally, we sought $21.38 million of additional funding for the Inspector General to enhance oversight of the Universal Service Fund. We recently received authorization for this funding level, and the IG is ramping up his oversight accordingly.

Thank you for this opportunity to report on the Commission's efforts in this area. I will be happy to answer any questions you may have.

Senator CARPER. Good. And I will have some. Thank you very much for that statement. Mr. Johnson, Governor Johnson.

STATEMENT OF CHARLES E. JOHNSON,[1] ASSISTANT SECRETARY FOR RESOURCES AND TECHNOLOGY AND CHIEF FINANCIAL OFFICER, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. JOHNSON. Thank you. Thank you, Chairman Carper, for your leadership, along with Dr. Coburn. It is very important to have that kind of leadership over this program.

I would like to start with some good news. For the very first time——

Senator CARPER. Let us go to the next witness. We do not have time for that good news, Mr. Johnson. Well, in your case, we will make an exception.

[1] The prepared statement of Mr. Johnson appears in the Appendix on page 102.

Mr. JOHNSON. OK. We have had a winding road, a stop and start, but for the first time for 2008, we will report on all seven of our high-risk programs. So you will have numbers on all seven. It has been a long time coming.

Senator CARPER. So that is for 2008?

Mr. JOHNSON. Yes. We will report for——

Senator CARPER. All right. For 2007, how many of the high-risk programs did you have?

Mr. JOHNSON. Well, we had three and then partials on others. And so we will have the full national error rates for 2008.

Senator CARPER. My guy Leavitt is pretty good, yes?

Mr. JOHNSON. Yes.

Senator CARPER. We should keep him on.

Mr. JOHNSON. I think we should.

Senator CARPER. All right. Maybe we should keep you on. Thanks. Go ahead. Thanks for the good news.

Mr. JOHNSON. Further good news is that for those mature programs, that is, Medicare, Head Start, and Foster Care, we have shown that the rates have dropped considerably since 2004.

Senator CARPER. Just explain those charts, if you will.[1]

Mr. JOHNSON. OK. On the far left, it is Medicare and it shows the rate in 2004 around 10 percent and then a drop to around 4 percent for the current year. That is Medicare. On Foster Care, about the same, a little over 10 percent and drop below 4 percent. And then on Head Start, it was about 4 percent, down to something less than 2 percent.

So that is the mature programs. And so I wanted to start with that good news and also that our recoveries are up, and I will get to that later.

Senator CARPER. All right.

Mr. JOHNSON. But for the first time then this year, we reported a partial disclosure of our Medicaid rate. That will be rather startling, an 18.5 percent error rate, which, as you indicated, translates to $13 billion, and if you add the State share, it is $22 billion.

Now, that number will go down because most of it was with the documentation. If you put that other chart up? I would like to just compare that so—yes, the third chart, please.

I would like to compare it because it reflects where we were with documentation when we started with Medicare in 2004. And you can see that the blue——

Senator CARPER. Just explain them for us.

Mr. JOHNSON. Yes.

Senator CARPER. They are a little hard to see from this distance.

Mr. JOHNSON. Yes. I am just going to give you——

Senator CARPER. I can tell they are charts. I can tell that.

Mr. JOHNSON. Good. And that is blue, and that shows 70 percent in Medicare, which would be the documentation error rates.

For Medicaid, it is 82 percent. So we start very high with documentation errors, and then we work it down. And so as you get the documentation in, then you start to find more errors in the things

[1] The charts referred to appear at the end of the prepared statement of Mr. Johnson and appears in the Appendix on page 118.

you really care about—medically necessary, coding errors, and that sort of thing.

So, I think we are basically on the right track.

Our four other programs depend almost entirely on eligibility, and eligibility is really where you get recoveries. If you have a person that is eligible, they are entitled to all of the benefits and ought to be. If you have someone that is not, they ought to be cut off. And it is pretty black and white in eligibility.

In general, we have eligibility on individuals or we have it on providers. And so we are working that eligibility side very hard.

But this is all about results. I mean, it is fine to measure error rates and it is fine to get percentages, but a statistical sample is taken and then applied to the whole. But you cannot recover from a statistical sample. You can only recover from a case-by-case one at a time, find out who is a violator, who is not.

And so we use some of the things that Mr. Werfel talked about—the data matching systems, public assistance data matching systems between us and various Federal agencies and State agencies.

We use the National Directory of hires. Just a couple examples, if I may.

In New York, by using the public assistance databases, since—from 2003 to 2007, they removed 26,000 individuals from the active rolls at a savings of $192 million. Now, Pennsylvania, 7 years, 13,000 removed, a savings of $73 million. On the National Directory of hires, we have about 82 percent of our States that are now using that—82 percent of the TANF covered population.

So we are making good progress there.

The other big thing that happened this year was our recovery audit contracts on Medicare. We had three pilot States. We gave them $239 billion in claims. That is billion dollars in claims. So you can see the size of our program. They recovered——

Senator CARPER. Say that again? You gave them how much in claims?

Mr. JOHNSON. We gave them in claims to examine $239 billion between three States. And they have recovered to date on that mass, $432 million. So we are starting to generate some genuine money.

That program is not without some controversy, but we have been working with Congress and others, and we are going to expand it to all 50 States, because it has proven to be a very lucrative source of recoveries.

Senator CARPER. And the monies that are recovered, what do we do with these? What do you all do with those?

Mr. JOHNSON. Well, that is an interesting thing. First, these are contingency-based contracts, so the contractor does get a piece of the recoveries. And then the remainder goes to Treasury or into the Trust Funds, depending on the nature of it.

Senator CARPER. All right. Thank you.

Mr. JOHNSON. On our fraud and abuse efforts, that is, as has been pointed out from Dr. Coburn, we have had over $12 billion in 10 years on that portion of it. And then our Medicaid Integrity Program is $13 for every $1 spent. The last number I saw it was something like a recovery of $82 billion.

Senator CARPER. You mentioned that you have been working with contractors in three States for Medicare recovery?

Mr. JOHNSON. Right.

Senator CARPER. And you hope to extend that to the other 47 States?

Mr. JOHNSON. Correct.

Senator CARPER. I saw somewhere in testimony I thought you might be able to do that by Fiscal Year 2010? Is that correct?

Mr. JOHNSON. We are moving onto it this year. I do not know how quickly we will get all States onto it, but we are moving very rapidly. We have had a lot of negotiations to take the pilot program and adapt it to something that is more acceptable to both the Congress and the States.

I cannot tell you exactly the timeline, but we are expanding it to all 50 States.

Senator CARPER. Could you let me know that for the record?

Mr. JOHNSON. Yes, we will get to you.

Senator CARPER. If somebody would just let me know for the record. Thanks very much.

Mr. JOHNSON. Yes. Finally, I would like to talk about this resources issue and the ability to sustain these programs on recovery.

I mentioned if you have a recovery audit, and you give a contractor a percent of their findings, that is covered.

But we had on our fraud and abuse, we had $383 million in the Senate past appropriations bill; in the Omnibus bill, zero. We had about $6.2 million for TANF, Foster Care, and Child Care in the bill. When we received the Omnibus back, zero. And so these numbers are being stripped out at the end, as Congress finally passes these bills. So we could use a little help in that area.

Senator CARPER. Great. Could I just ask you to be a squeaky wheel on that point, will you?

Mr. JOHNSON. Well, we will, and we will continue.

Senator CARPER. Be real squeaky.

Mr. JOHNSON. And Secretary Leavitt talks about this a lot.

Senator CARPER. Good. Well, make sure he talks some more to me, too. Thanks.

Mr. JOHNSON. Thank you.

Senator CARPER. All right. Thank you, sir. Mr. Rust.

STATEMENT OF DAVID RUST,[1] ACTING DEPUTY COMMISSIONER FOR DISABILITY AND INCOME SECURITY PROGRAMS, U.S. SOCIAL SECURITY ADMINISTRATION

Mr. RUST. Mr. Chairman, before I begin, my aging memory has recovered and the five Secretaries I worked for were Madigan, Espy, Glickman, Veneman, and Johanns. So it was a long run over there.

Senator CARPER. Some pretty good names there.

Mr. RUST. I would also like to just take a second before I begin to thank Mr. Werfel for his kind remarks about Social Security Administration's (SSA's) attempts to address the improper payments issue.

[1] The prepared statement of Mr. Rust appears in the Appendix on page 121.

Senator CARPER. I do not think he is still here. Is he? OK. Do you hear that?

Mr. WERFEL. You are welcome.

Senator CARPER. A shout out for you, Mr. Werfel. There you go. We don't get those everyday.

Mr. RUST. Thank you for the opportunity to discuss several of the efforts that the Social Security Administration is undertaking to strengthen and maintain the integrity of its programs.

As you said in the introduction, I am David Rust. I am currently the Executive Secretary of the Agency and since August I have been the Acting Deputy Commissioner for Disability and Income Security Programs. My responsibilities include oversight and coordination of policy and operations for a wide range of programmatic issues for the Old Age and Survivors Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) Programs.

I would like to just make an aside and say that both Commissioner Astrue and I were saddened to learn of the death of former Social Security Commissioner Robert Ball this week. He left an indelible mark on the Social Security Administration, and his programs and his leadership will be long remembered.

Senator CARPER. Wait. He died this week? Do you know?

Mr. RUST. Yes, he did, sir.

Senator CARPER. Oh, he was a giant, was he not?

Mr. RUST. A giant and at the age of 93.

Senator CARPER. I came to the Congress in January 1983, and we were grappling at the time with the Social Security Trust Fund. It was about to go under, and my recollection is the Commission that was chaired by Alan Greenspan included a bunch of people, among them Senators Dole and Moynihan and Congressman Pepper, and others. My recollection was that Mr. Ball was a big part of that.

Mr. RUST. And he remained active well until his recent illness on issues related to social insurance. So he was a towering figure at Social Security, our longest serving Commissioner, as a matter of fact.

I would like to take this opportunity to thank the Members of the Subcommittee for your support on behalf of SSA in the appropriations process. The $148 million appropriated above the President's request will make a real difference in our ability to meet the needs of the American people.

Last year, the Social Security Administration paid $576 billion in retirement, survivor, and disability benefits to nearly 50 million Social Security beneficiaries and nearly $40 billion to 7.3 million Supplemental Security Income beneficiaries.

Our beneficiary rolls continue to grow. However, it is important to note that while our workloads are increasing with the benefit population, our resources have been dwindling. We have had to reduce some of our stewardship activities in order to devote necessary resources to basic service delivery, and our payment accuracy has suffered as a result.

Let me give you an example: In Fiscal Year 2006, our payment accuracy with respect to overpayments in the Supplemental Secu-

rity Income Program was 92.1 percent, a significant decline from the Fiscal Year 2005 rate of 93.6 percent.

We directly attribute the decrease to the reduction in the number of Supplemental Security Income redeterminations that we were able to conduct. The redeterminations are periodic reviews of nonmedical SSI eligibility requirements.

In Fiscal Year 2004, we processed over 2.2 million redeterminations. In Fiscal Year 2005, that number dropped to 1.7 million, and in Fiscal Year 2006 and Fiscal Year 2007, we conducted just over 1 million of redeterminations.

We would like to explain that these and other program integrity issues also need additional resources. The President's Fiscal Year 2009 budget includes a proposal similar to the one submitted last year for Congress to provide SSA with funding outside the spending caps in the budget, specifically for program integrity activities.

This funding would support additional SSI redeterminations and the continuing disability reviews (CDRs), our most important tools in maintaining and improving program stewardship.

CDRs are periodic reviews of the medical eligibility for SSI and disability benefits. CDRs are estimated to save about 10 program dollars for every dollar spent conducting them, while the additional SSI redeterminations are estimated to save about $7 for every program dollar spent.

Another effective debt reduction tool is the Access to Financial Information Project, which automates access to financial data. Unreported bank accounts and account balances that are in excess of the prescribed limits are one of the leading causes of overpayments in the SSI Program.

The resources available for this project constrains us to only using it in a few States. Additional funding would help us to eliminate many of the SSI overpayments.

We also have comprehensive debt collection programs that use both internal and external tools to collect what we are owed. Internal debt collection methods include benefit withholding and cross-program recovery. External methods include tax refund offsets, administrative wage garnishment, and Federal salary offset.

In conclusion, Mr. Chairman, I want to assure you that SSA is committed to ensuring that the public receives the benefits they are due and assuring taxpayers that the Trust Funds and general revenue funds are accurately and efficiently spent. We are responsible for over $610 billion in OASI and SSI benefit payments annually, and we take seriously our stewardship responsibility.

We focus our program integrity efforts on those activities that yield significant returns on investment, and we believe that our efforts have yielded significant results so far.

We know that if Congress provides SSA with sufficient administrative funding, we will be able to do even more.

Again, I want to thank the Subcommittee for giving me this opportunity to discuss our program integrity activities. As always, we welcome this opportunity to work with you and to provide any additional information you may need. And I will be happy to answer any questions you may have.

Senator CARPER. Mr. Rust, thank you very much, and thanks for the work that you all are doing, the good work that you are doing on this front.

I want us to start off by focusing on this issue of what more the Congress could be doing to support you in your efforts. I think you call it program integrity activities. It sounds like there is more that we ought to be doing, could be doing, or that you could be asking us to do on program integrity activities.

Where are we falling short, we, collectively, the Congress? It sounds like the President is asking for resources in his budget to do these various things, these activities, and it sounds like we are not providing those to the extent that maybe we should.

Mr. RUST. Until the current year, as I stated, with a concerted effort on the part of the Congress, we received the President's budget plus a little bit more, $148 million over the President's budget.

But for the previous six budget requests, we were almost a billion dollars under the President's budget in terms of the actual appropriations, about $919 million cumulatively over those 6 Fiscal Years.

Senator CARPER. I am sorry. Say that again. I lost that thought.

Mr. RUST. In Fiscal Year 2008, the Congress appropriated the President's budget plus a little bit more. In the six preceding years, we were under in every one of those years, and the aggregate for those 6 years was almost a billion dollars, $919 million below the President's budget request.

Senator CARPER. So in 2008, the current Fiscal Year, we actually appropriated the President's budget request to support these activities?

Mr. RUST. The first time was Fiscal Year 2008, the current year.

Senator CARPER. Well, that makes me still——

Mr. RUST. In fact, if you go back to 1975—I want to double check this—I believe we have only received the President's budget request five times in the last 33 years.

Senator CARPER. Yes.

Mr. RUST. Part of our problem is that we are an agency under stress because we have the baby boomers beginning to retire. We have a smaller workforce. In the 1970s and 1980s we had about 85,000 to 87,000 employees, and now we are down to about 60,000, a number that matches where we were in 1973. So in terms of human resources and other resources, we are an agency under stress.

Senator CARPER. OK. Earlier, when I think Mr. Werfel was up here, I was suspecting that the President asked for certain resources to support these program integrity activities; was asking for them in his budget. We were putting language in the budget resolution at least paying lip service to supporting those requests, but then when we were actually appropriating the money at the end of the line, we were not necessarily providing the dollars that were reflected either in the request or in the budget resolution.

And now, it sounds to me like we actually, at least with respect to the Social Security Administration, that we actually did our job with the fiscal stewards and the partner that you had been looking for, at least for this current Fiscal Year.

Mr. RUST. In the current Fiscal Year, yes, sir.

Senator CARPER. Well, that is good. Mr. Johnson, can you share with us your perspectives from your department in the same regard and that is us being a fiscal steward and a partner with the Administration on these activities?

Mr. JOHNSON. Yes. Well, again, sticking with the resources side of it for just a moment, as I indicated, Congress did at least beginning—it was more than lip service. I mean, you took those—that $383 million on fraud and abuse right to the very end, but on the very last night that was stripped, and I guess we need more people looking out for that on that very last night.

But the other thing I was thinking of on these recovery auditors, where we do——

Senator CARPER. You may recall—just let me interrupt you again.

Mr. JOHNSON. Yes.

Senator CARPER. We had, as you recall, a disagreement with the Administration. The Administration was asking for a lot of extra money, a lot of it to go for the War in Iraq. But he was asking for about $190 billion more in this Fiscal Year for the War in Iraq and Afghanistan, and we had proposed spending $22 billion more than he had asked for in domestic discretionary spending.

And at the end, he said—basically, the President said if any appropriations bills exceed that $22 billion difference, I am going to veto those.

Mr. JOHNSON. Yes.

Senator CARPER. And I think my recollection is at the 11th hour, we made some tough choices as to where to trim back in order to stay within the President's parameters. And that is where the money I think——

Mr. JOHNSON. I know. We were caught in the tough choices problem, and I understand.

The other thing, though, is on recovery audit contracts, and this issue of whether or not you can pay contingent payments. I mean, there is a lot of controversy about that. You have—Congress now has been allowing that in some cases, and this Medicare breakthrough is very large for us. It does not mean that there will not be a lot of pushback on that whole issue.

But that actually works. It gives us our resources paid for as a result of the construction of the contract itself, contingent payments.

But I suspect that it will be——

Senator CARPER. Sort of like lawyers working on a contingency basis; is that right?

Mr. JOHNSON. Well, yes, and we are not doing it——

Senator CARPER. Yes.

Mr. JOHNSON [continuing]. But they are.

Senator CARPER. Yes.

Mr. JOHNSON. Yes.

Senator CARPER. But what is happening with these contractors?

Mr. JOHNSON. Well, I am just saying there is a lot of pushback on that, I mean, both from those who say it is an abusive tactic—if you start to pay them on a contingency basis, they will be rather abusive. It certainly has to be controlled, but I do not think elimi-

nating that, which some are suggesting that we should eliminate that type of contract, I would just say that it is one that works for us. I think it works for the taxpayer; and after all that we ought to be working for the taxpayer.

Senator CARPER. Oh, for sure. How can we work for the taxpayers, but eliminate the abuse or safeguard against the abuse that some have cautioned against?

Mr. JOHNSON. Yes. Well, again, we have looked at this on other fraud and abuse cases. Right now, the fraud and abuse cases are—we get the money appropriated and then they go out and find and abuse.

But that is another case where it is potential to use contingency contractors. I am just saying there is a potential for expanding that concept.

Senator CARPER. OK. All right. Let me come back to Mr. Dale. I am not sure I really understand the history of how these improper payments were identified within the FCC.

Mr. DALE. Yes, sir.

Senator CARPER. I think I understand the nature of the program, the Trust Fund, if you will, and how it is created, but when was the Trust Fund first created? Do you recall?

Mr. DALE. After the Telecommunications Act of 1996.

Senator CARPER. So about a decade ago?

Mr. DALE. Yes, sir.

Senator CARPER. And from the Trust Fund, monies began being disbursed roughly when?

Mr. DALE. About 1998, 1999—that timeframe.

Senator CARPER. And when did somebody start looking to determine whether or not there were improper payments being made?

Mr. DALE. Well, there were audits of various aspects of the program that started as early as about 1999. I think between the period 1999 and before this most comprehensive set of audits that the Inspector General did, there were about 500 or it might have been about 600 audits that have been done of different beneficiaries of the program, typically of the Schools and Libraries Program, but some of the other programs as well as part of the USF.

So over about a 6-year period, there were about 600 audits that were done.

Senator CARPER. OK. How much was identified in the IG's work in terms of—you mentioned this, but I just do not recall, in terms of improper payments——

Mr. DALE. Sure.

Senator CARPER [continuing]. And for what year?

Mr. DALE. The Inspector General did his audit work for the year 2005.

Senator CARPER. Remind me again what was discovered in improper payments in that year?

Mr. DALE. Sure. Well, there are sort of two data points here. There were direct improper payments to beneficiaries that were audited, and then his projection to the universe, his extrapolation of those results.

The first data point, which are direct improper payments that he had identified, is in the vicinity of about $46 million of beneficiaries of the program that were found to have various problems of one

sort or another. And then extrapolated to the universe of program participants, the Inspector General estimates more than $900 million could be at risk for improper payments.

Senator CARPER. All right. Now, that was for 2005?

Mr. DALE. Yes, sir. We reported it in our PAR for 2007 at—he used data for the period 2005——

Senator CARPER. PAR stands for President's—what is it?

Mr. DALE. Oh, I am sorry—Performance and Accountability Report. I have trouble keeping these——

Senator CARPER. So do I.

Mr. DALE [continuing]. In my head sometimes.

Senator CARPER. You only have one agency to worry about.

Mr. DALE. Sure. The Inspector General started his audits in the summer of 2006, did about 460 audits total of program participants, both beneficiaries of the program and also contributors in the program, and then, from getting the audits started, auditors up and running, working with independent accounting firms to actually conduct these government auditing standard audits of beneficiaries and their compliance with Commission rules, between that time, summer of 2006 and about 14 months later, he delivered the report to us with the estimate and the projections across the entire program.

Senator CARPER. All right. So, if I understand, the program was created in 1997 by the Telecom Act. Monies began flowing by 1999——

Mr. DALE. Yes, sir.

Senator CARPER. The hundreds of audits it sounds like were done between 1999 and 2005——

Mr. DALE. Yes, sir.

Senator CARPER. And then the IG did his work. Was it before 2005?

Mr. DALE. It did the work; started in 2006, but the data he was using was 2005.

Senator CARPER. Yes. And it sounds like the IG found a whole lot of improper payments?

Mr. DALE. Yes, sir. He found error rates above 9 percent and most of—actually in all the programs except the Contributor Program.

Senator CARPER. Now is that consistent with what was found for the earlier audits done between say, 1999 and 2004?

Mr. DALE. No, it is not. It is higher error rates than were found——

Senator CARPER. A lot higher?

Mr. DALE [continuing]. In error rates. It is hard to do an apples-to-apples comparison because the audits that were done beforehand were not a statistically valid set of audits and some of the programs were not audited with the sort of rigor that the Inspector General did this time.

Senator CARPER. Was there anything in the audits that were done between 1999 and 2004 that would suggest improper payments of this magnitude?

Mr. DALE. No, and, from my understanding, the Inspector General relied on the earlier audit results and using the statistical formula from the Office of Management and Budget determined that

the number of auditees that would be—or audits that would be taking place in this program, and so the error rates that he was looking at beforehand informed his decisions about the number and type of audits to do this go around.

And looking at these error rates, there is also an associated margin of error that is outside the Office of Management and Budget's guidance on what the margin of error should be. And so the Inspector General is expanding the number of audits that he is going to do going forward so that we can get a more precise estimate of the baseline of improper payments in the program.

Senator CARPER. OK. I think you maybe just answered this, but let me just ask it anyway.

Mr. DALE. OK.

Senator CARPER. When Mr. Werfel and Mr. Williams were up here, I understood them to say that the programs that we have been looking at for improper payments since 2004 we have actually seen the level, for the most part, of the improper payments diminish over that period of time, because we are focusing on the agencies; we are focusing on them, and they are getting better at doing their job.

Is there reason to believe that you can now drive these numbers down?

Mr. DALE. We certainly hope so.

Senator CARPER. I hope so, too.

Mr. DALE. We have been working hard really to exceed the standards that you had established about the type of work that we need to do. So, when we had identified with our risk assessment two programs, and I think this is part of the benefit of having the Inspector General do this work, the Inspector General wanted to do not just the two programs, but to evaluate compliance with all four of the USF programs.

It has turned out that one of the programs that we thought was not at risk, the Low Income Program, had a higher error rate than we anticipated.

So, now, we are at the stage where this year, the Inspector General should complete this expanded audit program for all these funds that we have here.

Senator CARPER. For what years?

Mr. DALE. I believe he will be auditing for the 2006 period and so we plan to get—he has informed me that he expects to get these results completed by the end of this Fiscal Year. So we would get that in our PAR for 2008, the financial statements that we report in 2008.

Senator CARPER. Now, for the monies that have been identified as improper payments in 2005, how do you go about recovering those?

Mr. DALE. Right. There is an administrative process that is established under the Commission's rules. We work with this nonprofit company that basically issues a letter to those parties who have been found to have not complied with the FCC's rules, and we start to take the money back. In some of these previous audits that I had mentioned that took place recoveries have been underway. I think we have recovered out of those previous rounds of audits, I think there is about $38 million or $40 million that we have

already recovered from the earlier set of audits. I had mentioned earlier there is something on the order of $60 million to $70 million total that is identified for potential recovery out of the Inspector General's audits this time.

Those recovery efforts are underway. A very small amount has been recovered right now just because we are early in the process.

Senator CARPER. What happens again to the monies that are recovered? How do you dispose of them?

Mr. DALE. The administrator is supposed to recover the money, and they effectively issue a letter and then the parties, the program participants, could appeal the decision or not and so sometimes it falls into litigation.

So we have some millions of dollars that we have tried to recover from various program participants in the past that is currently caught up in litigation.

Senator CARPER. Have any dollars been recovered?

Mr. DALE. Yes, sir. At least $38 million have been recovered.

Senator CARPER. And what has happened to that $38 million?

Mr. DALE. That has gone back into the fund so it can be used for the program. And then for the Inspector General's audits that he just completed that are used to estimate our error rates for improper payments, it is a little less than a million dollars has been recovered in the past 3 months. And I believe there have been something on the order of $5 million or $6 million that has been really at the start of the pipeline of recovery and then we are working to recover the remaining. It is about $60 million or $70 million.

Senator CARPER. OK. Thanks. Mr. Christopherson, I think you told us that the School Lunch and School Breakfast Programs are now being examined or have been examined for the first time.

And what we found is that monies were improperly spent—not a big surprise. We have a son who is still a senior in high school, so I have got some idea what the challenge that schools have to try to identify who is eligible for the School Lunch and School Breakfast Programs.

We were talking earlier, I think it was with Mr. Werfel and Mr. Williams about how one of the challenges is to have access to some kind of third-party data to be able to verify that folks are eligible or not eligible.

Let me use that as a way to ask how are we identifying? What kind of difficulty are we having in identifying folks who are eligible or not eligible for these programs, considering they are in thousands of schools across America? What kind of difficulty are we having in getting the third-party data to be able to verify whether folks are or are not eligible? It has got to be difficult.

And then, when you identify them, how do you go back and recover?

Mr. CHRISTOPHERSON. I think you know that these programs are fairly complex, and we serve somewhere close to about 100,000 schools per day. And as we are looking at our first year in measuring these programs and pretty tough on our agencies as we go through this, but we have put it into two separate buckets, which is kind of qualifying paperwork, which is about half, and then the count and the certification, so it comes back to menu items and things like that.

So, did you get your vegetable or your fruit, because there is a specific menu that has to be an approved menu, and if it is not an approved menu, then you fail. If a child goes through and they pick up one vegetable and they get to the end of the line and they are supposed to have a vegetable and a fruit, based on the requirements under the program, that is a failure. If they have been qualified as a partial subsidy when they should be a full subsidy under the program, that is a failure.

So there is a lot of different areas where this has a very complex tapestry in the way that it operates and, obviously, Food and Nutrition Service has been very heavily involved in that.

But as you were saying, we have, under the last WIC authorization, we are allowed to actually go in and have a mandatory direct certification into the food stamp system. That is being deployed out to the schools. It will probably take several years to actually put that in.

And what will happen is those children that are—or those families that are in the system they will not have to go through the qualifying paperwork, which will be exceptional.

The other ones that are not in the food stamp program——

Senator CARPER. Just let me interrupt you. Just explain in real simple terms for me, if you will. How does the system work now? How is it going to be made more effective or more cost effective?

Mr. CHRISTOPHERSON. OK. In the simplest terms, the program now works——

Senator CARPER. Feel free to give me some examples. That helps me.

Mr. CHRISTOPHERSON. That if you came in and you requested——

Senator CARPER. You being?

Mr. CHRISTOPHERSON [continuing]. Food assistance, being a citizen and in the school district, you came in and requested food assistance under the School Lunch Program and the Breakfast Program, you would be handed a form. You would go out and fill out that form. Under the current legislation requirements, a school would then go through and they would take about 3 percent of that pooling of forms and then request additional information based on that and that additional information would be a qualifying pay stub or some sort of information that would say that you truly qualified for that program.

So that is the simplest approach that I can give you, which is pretty close to the way it is.

Under the new program—in the new methodology what will happen is that if you are already on food assistance, then you will not have to go through the qualifying paperwork.

Senator CARPER. And for food assistance, what we used to call food stamps?

Mr. CHRISTOPHERSON. Right. The Food Stamp Program.

Senator CARPER. So going forward, for families that are eligible for food stamps, they will automatically be eligible for free and reduced price lunches or breakfasts?

Mr. CHRISTOPHERSON. Both. If you qualify under the Food Stamp Program, then you would qualify and then you would have the ability—the schools will have the ability actually to queue that record to see if that family is in there, which obviously will shrink the

pool of risk then, both on the two different aspects of this, those that have at risk that they appear that they only qualify for a partial payment when they should qualify for a full or vice versa. And so we will eliminate a lot of that risk.

So the pool will shrink and then we will have the people that come in and request if, that they are not in the food assistance program.

And so, therefore, when we get into the 3 percent, we will have a smaller pool that we are judging as well.

Senator CARPER. OK.

Mr. CHRISTOPHERSON. So I should be very helpful.

Senator CARPER. OK. Good. We are right about at the end of where I hope to wrap up.

One of the things I would like to ask this last question. Other questions we will simply submit for follow up from you.

But one of the things, and I like to do this a lot when we have a panel like this, just to remind me of our takeaways. For those of us who serve on this panel and on this Subcommittee, what should our takeaways be from the testimony that we have heard to date to enable you to really ensure that your agencies and other agencies—some out there are doing a good job on this stuff, and some that are not. But what are the takeaways for us.

And, Mr. Rust, if you would like to lead it off. If you do not, then we will ask Mr. Johnson to.

Mr. RUST. No, I think there are several legislative proposals in the President's budget that will be coming up next week. I think that if you would consider those seriously, they would help us to, for instance, greatly simplify our program. Part of the problem we have, the same problem that many of our colleagues on this panel have, and that is a very complicated program. For example, when you have individual eligibility, a person could be eligible at the time we grant the benefit and then that person could lose that eligibility for some reason in the coming months or years.

In order to address these types of issues, we have several proposals to simplify the program. For instance, one of the things that we will be asking the Congress to look at would be a change in the offset for the Workmen's Compensation benefits that would greatly simplify the program. I think it would make it easier for us to administer the provision and reduce the overpayments and underpayments. That proposal will be in the President's budget.

Senator CARPER. OK.

Mr. RUST. That is certainly one of the things that I would mention. There are several other provisions that we will be sending to Congress during the course of the year that will help us with program simplication.

Senator CARPER. When will you send those up, Mr. Rust? Are they part of the budget? Are they part of some other request? How do they come to us?

Mr. RUST. Well, they will come in different ways. But two or three of them are contained in the President's budget and have been for the last couple of years. They have not been enacted, and it would be helpful to the agency if the Congress would consider them.

Senator CARPER. And what committee in the Senate would have jurisdiction? Any idea? Would it be the Finance Committee? Would it be the Health Committee?

Mr. RUST. Probably the Finance Committee would be the committee of jurisdiction.

Senator CARPER. All right.

Mr. RUST. If it would be helpful, we would be glad to advise you and your staff.

Senator CARPER. Yes. I have learned after 7 years in the Senate that sometimes it is helpful to convene not a hearing, but what I call a roundtable, where it is just less formal, less structured and it is an opportunity for a lot of give and take, and maybe we could have a roundtable that would focus on what we can be doing and ought to be doing on the legislative side to support what you all are trying to get done in the Executive Branch in this regard.

Mr. RUST. We would be glad to participate.

Senator CARPER. Good. That would be good. Thank you. Mr. Johnson.

Mr. JOHNSON. I am quite interested in your new legislation and you made a statement.

Senator CARPER. You want to be a co-sponsor?

Mr. JOHNSON. Well, for parts of it. You made a statement, if doing so is cost effective. And I like that statement because——

Senator CARPER. I said it twice.

Mr. JOHNSON. Yes, you did, and I wrote it down because it is an important statement, and as you consider new legislation, it is important that we make sure that we do have this risk based approach, which we should have, but that we also then make sure that we are not spreading resources too thin

And one of the things that happens to us is we spend administrative money, but the recoveries generally go directly to the Treasury or to a Trust Fund.

So we keep no part of those recoveries to expand the program itself.

Senator CARPER. So what incentive do you have other than doing what you are supposed to do?

Mr. JOHNSON. Yes, we are doing what we are supposed to do, and we have to account for you. And that is my big incentive is to——

Senator CARPER. Well.

Mr. JOHNSON. Knowing that I am going to be——

Senator CARPER. Can there be some other incentive for the agency?

Mr. JOHNSON. Well, yes, I think there could be if there were some allowance that we could use part of those recoveries to help the program or to use in the program. That would be a great assist.

Senator CARPER. Yes, we are working on a similar approach—John Kilvington, our staff director, and our friends on the Republican side, our minority staff, are working on surplus property recovery——

Mr. JOHNSON. Yes.

Senator CARPER [continuing]. To ensure that if an agency simply finally moves on, sells, unloads surplus property that they get to keep part of the proceeds to provide an incentive for them. Other-

wise, there is not much of an incentive for them to move those properties.

Mr. JOHNSON. And that does worry me, because if we are going to expand now the number of risk programs, and even when we talk about some of these legislative changes that are no cost, there are internal costs. I mean, you just do not carry things out without internal costs. So if we can get a nexus between recoveries and some assist on program integrity, that would be wonderful.

Senator CARPER. OK. Well, I hope you will participate in a roundtable, and I hope you will make that point again and again. That is a good point.

Mr. JOHNSON. Thank you.

Senator CARPER. Mr. Dale, any takeaways for us?

Mr. DALE. I just think from our perspective it would be acting on the Inspector General's request for resources that we can maintain an effective oversight of the program. I know we are very appreciative of the $21.48 million we received this year, and we are going to be looking to ask for additional resources to keep this strong oversight going.

Senator CARPER. How much, $21 million?

Mr. DALE. We received $21.48 million for——

Senator CARPER. For 2008?

Mr. DALE [continuing]. For Fiscal Year 2008; yes, sir.

Senator CARPER. Do you recall what you asked for?

Mr. DALE. That was what we asked for. And we are putting our request in next week for additional resources as well.

Senator CARPER. All right. Thank you. Mr. Christopherson, takeaway for us, please?

Mr. CHRISTOPHERSON. Yes, a couple of things. I would go ahead and echo the same thing with the group and add one more, echoing, of course, that as we do the President's budget we do it with a very sharp pencil, and we are very exact how we do it in order to be very conservative in those, and as we go through and as discretionary funds and stuff are cut out of them, it makes this difficult often to continue to operate in these programs and things like that as we start looking at priorities.

And I say that very respectfully because I know that you guys also have priorities in the Senate and the House.

But I would also like to point out that we do risk assessments on all of our programs at USDA, and I know in many other departments as well they do the same thing as they do a preliminary risk assessment, and we are very pointed in those. And it has taken us a couple of years to actually get those to more of an exact level, so as management looks in, they say this does not make sense. This looks like medium risk. Therefore, we need to fine tune our risk assessment inside the agency, and we finally feel like we have gotten there are USDA and I know that other departments are actually going through that same process.

So this is becoming a very fine tuned initiative as we go forward.

And the third point is that one of the things that we found at USDA and realized that we have a myriad of programs versus just a single mission, we have a myriad of programs and very different missions, so between Forest Service and Food and Nutrition and

the Farm Service Agency. But the point that I would like to make on this is that there is not one solution to correcting this issue.

We found as we sit down and we go through the creativity with each one of the agencies what is good for Food and Nutrition to fix this issue is very different for the Farm Service Agency to fix a problem there that we dealt with last year, and we very quickly found a resolution and they very quickly moved a correction process forward.

So that is the other point that I would make is that there is just not a broad brush that would fix this problem. It is very detailed, and you really have to go in and look at that detailed analysis and analyze that out.

Senator CARPER. All right. Thank you.

Mr. RUST. Mr. Chairman, may I make just one other comment real quick?

Senator CARPER. Sure.

Mr. RUST. When you asked about things that Congress could help us with——

Senator CARPER. Yes, sir.

Mr. RUST [continuing]. We had a budget request for Fiscal Year 2008 of $213 million above the cap—solely for integrity programs. That disappeared in the final appropriations process.

So while our base budget reached the President's request, we lost that couple hundred million dollars above the cap that we would have been able to use for integrity programs. I do not know why, but that is something that Congress could keep an eye on for us.

Senator CARPER. Remind us of that at a roundtable, please.

Well, I know some people do not think this improper payments stuff is all that interesting. There is the press table over there, it is not overflowing with representatives from the press. But it is important stuff, and, as we saw from our charts over here earlier, the amount of money here that is involved in improper payments I guess last year was about the size of the GDP for the country of Vietnam, a country I know a little bit about as a Vietnam war veteran. And they did not have much of a GDP to brag about, but they do now. They are a bustling country.

So that is a fair amount of money that is in question here for us, and one of the things I am encouraged about as we look to prepare to leave is that the programs that we have been actually focusing on since 2004, it sounds like our agencies generally are driving down improper payments. That is good. I am pleased to hear that we continue to expand the number of programs that are being examined and that we are scrutinizing each year. That is encouraging.

I am pleased, on the one hand, to hear some ways that we have actually funded the President's budget request in some regards to give you the ability to work on these program integrity activities.

But it sounds like a couple of areas we did not, and we want to make sure that we are doing a better job there.

The other area, recovery. Mr. Johnson talks to us about some things that are going on in Health and Human Services on program recovery that are very encouraging, and I think the potential for doing that nationally is extraordinary. And we want to encourage that.

We want to find a way, if we can, to incentivizeagencies to go out to do this work, not just as you explain it as the law. You have to do it. But to say not only do you have to do it, but if you do, you will have the ability to keep some of these resources to run your programs better and to better do your job.

This our sixth hearing on this subject in 3 years, which is a lot of hearings. But I think we are understanding things better; got our arms around it better than we did when we started. It sounds like you all do, too, and we will keep doing our share and you do your share, and maybe some day, by the time I leave here, we will have a improper payments estimate that is the size of one of those little bitty countries that we had gathered here under the rubric of 44 countries whose collective GDP was about $55 billion.

We will leave the hearing record open for a while for my colleagues to ask questions. I know others have questions. I have a few more I want to submit for the record. We just ask that you respond to those in a timely way. We appreciate your being here today, the good work that is reflected, and for those that you know and are working with and are not doing their best, tell them to be more diligent because we are not going away on this issue.

My hope is that by us not going away, it will sort of give the Executive Branch the better ability to reach out to the agencies within the Executive Branch and say look; these Senators, Coburn, Carper, and Levin, they are breathing down our necks. They are not going to let us go until we do this right, so we will do our jobs and be diligent and we know that you will, too.

With that having been said, this hearing is adjourned. Thank you, all.

[Whereupon, at 4:46 p.m., the Subcommittee was adjourned.]

APPENDIX

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

Testimony of Daniel I. Werfel
Acting Controller
Office of Management and Budget

before the

Subcommittee on Federal Financial Management, Government Information and International Security of the
Senate Committee on Homeland Security and Governmental Affairs

January 31, 2008

The Federal Government is achieving measurable results in meeting the President's goal to eliminate improper payments and fulfill the requirements of the Improper Payments Information Act of 2002 (IPIA). The results from FY 2007 demonstrate that Federal agencies are identifying all high risk programs and activities, reporting error measurements for them, and implementing corrective actions to drive error totals down. Looking to FY 2008 and beyond, we are well-positioned to sustain current progress on the *identification* and *measurement* of improper payments. However, to *eliminate* the $55 billion in improper payments reported in FY 2007, Federal agencies need the resources and tools proposed in the President's FY 2009 Budget. Specifically, the Congress and the Executive Branch must work together to fund and implement program integrity activities with a proven track record for eliminating error, expand access to third party data sources to verify applicant eligibility, and enact legislative reforms that facilitate error reduction in our highest risk and larger dollar programs. Initiating these improvements will be essential if we are to meet the President's and Congress' charge to eliminate improper payments.

FY 2007 Results

In this fourth year of reporting under the Improper Payment Information Act (IPIA) of 2002, the Federal government has continued to make measurable improvements in identifying, measuring, and reducing improper payments.

- Federal agencies identified $1.9 trillion in program outlays to be measured for improper payments and subjected an additional $330 billion in high risk contract payments to recovery audits. As a result, 80% of all Federal outlays are being actively measured and/or reviewed for improper payments. We believe this amount represents virtually all sources of risk for significant payment errors.

- Fourteen programs reported error measurements for the first time, including a partial rate for the Fee-for-Service component of Medicaid. As a result, Federal agencies are now reporting error measurements on 85% of all program dollars deemed high risk for

improper payments. An error measurement will be reported on all high risk programs by FY 2010.

- Federal agencies continued to achieve significant error reductions. The accompanying table shows that programs first reporting in FY 2004 had a 4.4% error rate (or $45.1 billion in improper payments). In FY 2007, those totals have declined to a 3.1% error rate (or a $7.9 billion reduction in improper payments). Similarly, programs that first reported in FY 2005 and FY 2006 have seen improper payments cut in half, representing a $2.3 billion reduction.

Federal Improper Payments by Fiscal Year ($ in millions)

	FY 2004		FY 2005		FY 2006		FY 2007	
	Error $	Rate	Error $	Rate	Error $	Rate	Error $	Rate
FY 2004	45,077.3	4.4%	37,168.3	3.4%	36,244.4	3.2%	37,187.2	3.1%
FY 2005			1,303.3	1.0%	2,914.3	2.0%	1,512.9	1.1%
FY 2006					1,429.1	1.4%	420.4	0.5%
FY 2007							15,863.4	12.4%
Total	**45,077.3**	**4.4%**	**38,471.6**	**3.1%**	**40,587.8**	**2.9%**	**54,983.9**	**3.5%**

These results demonstrate several important trends. First, under the current legislative and regulatory framework, Federal agencies are expanding the universe of high risk programs that are measured and/or audited each year. Second, the Federal government is making steady progress toward closing all reporting gaps so that the full extent of government-wide improper payments will be available in the next few years. Third, once an agency has identified and reported payment errors, it is able to implement corrective actions and reduce those errors in subsequent years.

These trends, along with other key data and analytics highlighted in OMB's annual IPIA report, *Improving the Accuracy and Integrity of Federal Payments (January 2008)*, inform the Federal government's strategy and priorities going forward. Specifically, four years into implementing the IPIA, agencies generally have the tools in place to ensure that all high risk activities are identified and measured. However, Federal agencies do not currently have the full complement of tools they need to eliminate the approximate $55 billion in improper payments reported in FY 2007. Our top priority is to address this gap through the strategies identified below.

Maximize Impact of Program Integrity Dollars

First, we will continue to focus our energies on the higher risk, larger dollar activities. Specifically, nine programs account for 90 percent of the government-wide improper payment total.[1] We must ensure that agencies are implementing effective improvement plans in these programs before initiating additional activities in lower risk areas. Within our largest

[1] The nine programs are Medicaid Fee For Service; Medicare Fee for Services; Earned Income Tax Credit; Supplemental Security Income; Unemployment Insurance; Old Age, Survivors, & Disability Insurance; Food Stamps; Public Housing/Rental Assistance; and National School Lunch Program.

programs, agencies must target the largest causes of error and utilize return on investment analyses to inform on the best uses of program integrity resources. The Social Security Administration has initiated rigorous return on investment analyses for its error prevention and reduction activities that are based on actual past performance and can serve as a best practice for other agencies.

Address Challenges in Eligibility Verification

In many cases, activities with the highest return on investment are those that help prevent ineligible applicants from receiving program benefits. Program eligibility errors account for approximately 80% of government-wide improper payments. These errors occur when Federal, State, and local governments are unable to validate data such as income information reported by applicants for benefits. Most of the nine programs that account for 90% of government-wide improper payments are means-tested,[2] where the inability to verify applicant income data is often a primary cause of error. Therefore, ensuring agencies have the tools to remedy eligibility errors must remain a top priority.

Historically, agencies have been less effective in eliminating eligibility errors than other causes of error, such as missing or incomplete documentation.[3] However, Federal agencies have had success when they match applicant information with third party databases that capture information such as earnings, income, assets, or work status. For example, improper payments in the Public Housing/Rental Assistance program dropped significantly once the Department of Housing and Urban Development (HUD) launched the Enterprise Income Verification System, which helped validate applicant income information.

Building on HUD's success, we intend to create more opportunities for third party data matches across government programs. This will involve a variety of initiatives, including enhancing current data sources such as the National Directory of New Hires so that it more effectively informs on program eligibility in the Unemployment Insurance program; eliminating legislative and regulatory barriers to all third party data sources for disaster relief scenarios; evaluating potential opportunities to standardize definitions for eligibility criteria among different programs serving similar populations; and initiating safeguards that balance expanded access with data privacy and security.

Enact Program Reforms

In most cases, ensuring resources for program integrity and expanding access to third party resources will require Congressional action. Specifically, each year since 2003, the President has proposed discretionary funding ("above the cap") for activities with a proven track record of reducing error and generating program savings. Despite anticipated savings of nearly $4 billion over 10 years, Congress has enacted only a small portion of these proposals, and did

[2] Means-test programs provide cash and non-cash benefits to families or individuals whose income falls below defined levels and who meet certain other eligibility criteria established for each program.

[3] Documentation errors arise when agencies do not have sufficient information to validate whether a payment is accurate or not. Correcting these errors provide greater confidence in the accuracy of Federal payments, but do not always translate into program savings. This is because many payments that are identified as improper due to missing documentation are ultimately determined to be proper once the necessary documentation is obtained.

so only in 2006. The current situation with the Social Security Administration's Supplemental Security Income program best exemplifies the need for Congress to ensure that cap adjusted program integrity dollars are appropriated. Improper payments have been steadily increasing in this program over the past several years (from $2.6 billion or a 7.3% error rate reported in 2004 to $4.1 billion or a 10.1% error rate reported in 2007). The under-funding of continuing disability reviews and redeterminations (i.e., the activities for which the cap adjusted funding would be used) is the primary cause for the increase in error dollars.

When the cap adjustments are combined with the President's other proposed legislative reforms for improving payment accuracy, the anticipated savings total is approximately $18 billion over ten years.[4] Thus, for every year these proposals are not enacted, the Federal government (and the taxpayer) loses approximately $1.8 billion in unrealized error reduction and savings.

Conclusion

The improper payment results achieved over the last four years demonstrate the importance of transparency and accountability in achieving better management results. Beginning in 2004, the President and Congress charged Federal agencies with reporting error measurements on all high risk activities and initiating corrective actions. In each year since, Federal agencies have expanded the programs and activities reporting error measurements and have reduced a significant amount of errors previously reported. Federal agency efforts have yielded a rich source of data on improper payments that helps inform on our challenges and priorities moving forward.

To eliminate $55 billion in improper payments, we believe the best path forward is to target the highest risk/dollar programs and the largest sources of error within those programs. Further, we must ensure that agencies rigorously assess where program integrity resources will generate the best return and then obtain the resources for the agencies to get the job done. Finally, we must continue to ensure that the remediation of improper payments remains a top management priority for Federal agencies. To this end, we will continue to utilize the President's Management Agenda scorecard, which has proven to be an effective accountability tool for driving agency leaders to implement effective approaches for reporting and eliminating improper payments.

We congratulate this Subcommittee for its attention and dedication to the elimination of improper payments. We look forward to working with you and other Members of Congress to implement each of the strategies identified above. At this time, I would be pleased to answer any questions that you have.

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[4] A complete description of the President's legislative proposals for addressing improper payments is provided in OMB's annual IPIA report, *Improving the Accuracy and Integrity of Federal Payments (January 2008)*. The relevant excerpt from the Report is attached to this testimony for convenience.

Attachment 1
Excerpt for OMB's annual IPIA report,
Improving the Accuracy and Integrity of Federal Payments (January 2008)

V. PROPOSED REFORMS

- *Each year since 2002, the President has proposed discretionary funding ("above the cap") for activities with a proven track record of reducing error and generating program savings. Despite anticipated savings of nearly $4 billion over 10 years, Congress has enacted only part of these proposals, and did so only in 2006.*

- *When combined with the President's other proposed legislative reforms for improving payment accuracy, the anticipated savings total approximately $18 billion over ten years.*

As noted throughout this Report, Federal agencies are pursuing numerous and varied administrative actions to facilitate the identification and elimination of improper payments. However, such administrative actions must be complemented by targeted programmatic reforms if efforts to eliminate improper payments are to be fully successful. As a result, OMB has worked with Federal agencies to enumerate the legislative changes that are necessary to facilitate better measurement, detection, and elimination of improper payments.

Several reforms re-proposed in the FY 2009 President's Budget are critical to the Federal government's efforts to eliminate improper payments despite not providing scorable savings. Most notably, the Budget proposes adjustments for spending above a base level of funding within discretionary levels (or "cap adjustments") that provide resources for administrative program integrity and tax compliance efforts in Medicare, Medicaid, Internal Revenue Service enforcement activities, Unemployment Insurance, Supplemental Security Income, and Old Age, Survivors and Disability Insurance. Such funds should not be subject to discretionary spending caps, as they generate program efficiencies that result in large, positive returns on investment for taxpayers as high as 10:1. For the FY 2009 President's Budget, nearly $4 billion could be saved over ten years if the Congress enacts the President's request of $968 million.

Additional proposed reforms that are necessary to ensure greater program integrity and payment accuracy are summarized below and can save $14 billion over ten years with no additional funding required:

- *Unemployment Insurance Overpayment Recoveries* – provides tools and resources as financial incentives to States to more aggressively pursue benefit overpayments, impose penalties for fraud, charge employers when their actions lead to overpayments, and collect delinquent overpayments through garnishment of tax refunds. The reform proposal further improves the accuracy of hiring data in the

National Directory of New Hires to include the actual start work date. If enacted, the proposal is projected to save $3.6 billion over ten years.

- *Earned Income Tax Credit (and Child Tax Credit)* – clarifies the uniform definition of child, simplifies the Earned Income Tax Credit eligibility rules, and reduces the computational complexity of the refundable child tax credit. If enacted, the proposal would save $264 million in the first year and $6.4 billion over ten years.

- *Old Age, Survivors and Disability Insurance* – provides the Social Security Administration with the tools to conduct improved enforcement of the Windfall Elimination Provision and the Government Pension Offset. In addition, it proposes to substitute a standard offset amount for the more complicated formulae currently in use for calculating the Worker's Compensation offset for Disability Insurance. If enacted, these two proposals would save $4 million in the first year and $3.6 billion over ten years.

- *Payment Transaction Integrity Act* - revises an existing exception to the Right to Financial Privacy Act to allow the Federal Government to trace and recover federal payments sent electronically to the wrong account. This will prevent improper payments from being accessed by incorrect recipients and/or in incorrect amounts. If enacted, savings are projected at $53 million in the first year, and $718 million over ten years.

The FY 2009 President's Budget includes a new legislative proposal for reducing improper payments when providing Federal assistance in an emergency. This proposal expands Federal agency access to government-owned or managed systems to confirm the eligibility of recipients applying for disaster assistance. This provision will facilitate the President's directive, under Executive Order 13411, that Federal agencies expedite the delivery of disaster benefits while maintaining effective payment controls.

In addition, consistent with Section 484(q) of the Higher Education Act and Section 6103(c) of the Internal Revenue Code, the Department of Education and the Internal Revenue Service continue work on implementing a process to verify students' (and their parents') income, tax and certain household information appearing on their income tax return that they provided as part of their application for Federal student aid. This process is part of ongoing efforts to ensure students receive the correct amount of Federal student aid, and is a key component of the Administration's efforts to reduce erroneous payments. This proposal will virtually eliminate improper payments in the Pell Grant program which are estimated at $400 million annually.

Last year, this Report highlighted legislation (Pub. L. No. 109-432) requiring all States to institute recovery auditing to recoup Medicare Trust Fund dollars that were improperly paid to hospitals, physicians, and other health care providers over the past several years. The Administration supports this type of forward thinking, and encourages innovative ideas for eliminating and recovering improper payments.

United States Government Accountability Office

GAO

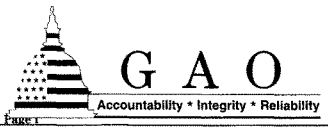
Before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

For Release on Delivery
Expected at 2:30 p.m. EST
Thursday, January 31, 2008

IMPROPER PAYMENTS

Status of Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements

Statement of McCoy Williams, Managing Director
Financial Management and Assurance



GAO-08-438T

January 31, 2008

GAO
Accountability·Integrity·Reliability

Highlights

Highlights of GAO-08-438T, a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

IMPROPER PAYMENTS

Status of Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements

Why GAO Did This Study

The federal government is accountable for how its agencies and grantees spend hundreds of billions of taxpayer dollars and is responsible for safeguarding those funds against improper payments and recouping those funds when improper payments occur. The Congress enacted the Improper Payments Information Act of 2002 (IPIA) and section 831 of the National Defense Authorization Act for Fiscal Year 2002, commonly known as the Recovery Auditing Act, to address these issues.

GAO was asked to testify on agencies' efforts to eliminate and recover improper payments. Specifically, GAO focused on (1) progress made in agencies' implementation and reporting under IPIA for fiscal year 2007, (2) major challenges that continue to hinder full reporting of improper payment information, and (3) agencies' efforts to report on recovery auditing and recoup contract overpayments. This testimony is based in part on a recently issued report (GAO-08-377R) in addition to a further review and analysis of improper payment and recovery auditing information reported in agencies' fiscal year 2007 performance and accountability reports (PAR) or annual reports. The Office of Management and Budget (OMB) provided technical comments which GAO incorporated as appropriate.

What GAO Found

While agencies have made progress, GAO identified ongoing challenges in key areas related to IPIA and recovery auditing implementation and reporting.

- **Progress made in agencies' implementation and reporting under IPIA.** Agencies reported improper payment estimates of about $55 billion in their fiscal year 2007 PARs or annual reports, an increase from the almost $41 billion reported in fiscal year 2006. The reported increase was primarily attributable to a component of the Medicaid program reporting improper payments for the first time totaling about $13 billion, which GAO viewed as a positive step to improve transparency over the full magnitude of improper payments. The $55 billion estimate consists of 21 agencies reporting for 78 programs, including 19 agency programs or activities reporting for the first time in fiscal year 2007. Further, select agency programs that first reported an error rate in fiscal year 2004 reported an overall decrease in their error rate estimates when compared to fiscal year 2007. OMB noted that further reductions in error rates are expected as agencies take steps to address payment errors resulting from insufficient or no documentation.
- **Challenges with IPIA implementation.** Not all agencies reported conducting risk assessments of all of their programs and activities as required under IPIA. Further, agencies have not estimated for 14 risk-susceptible programs with outlays totaling about $170 billion. Additionally, in some instances, agencies did not measure improper payments for a 12-month period as generally required by OMB's implementing guidance, nor did the estimates reflect improper payments for the entire program. Four agency auditors reported noncompliance issues with IPIA regarding risk assessments, sampling methodologies, corrective actions, recovery of improper payments, and inadequate documentation. Agencies also reported that statutory or regulatory barriers may limit corrective actions to reduce improper payments. Lastly, agencies continue to face challenges in the implementation or design of internal controls to identify and prevent improper payments. Specifically, over half of agencies' Offices of Inspectors General identified management or performance challenges that could increase the risk of improper payments.
- **Agencies' efforts to report recovery auditing information continue.** In total, 21 agencies reported identifying about $121 million in improper payments in fiscal year 2007 for recovery and actually recovering about $87 million, a decrease of about $217 million when compared to the reported amount identified for recovery in the prior year. Most of the decrease can be attributed to the Department of Defense's decision to stop reporting voluntary refunds. GAO noted that few agencies reported on corrective action plans to address the root causes of contract payment errors. Also, two agencies reported that conducting recovery audits was not cost beneficial. All but two agencies reported they contracted out recovery audit services, conducted in-house recovery audits, or both. The other two were silent on this on matter.

To view the full product, including the scope and methodology, click on GAO-08-438T. For more information, contact McCoy Williams at (202) 512-2600 or williamsm1@gao.gov.

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to be here today to discuss the governmentwide problem of improper payments in federal programs and activities and executive branch agencies' efforts to address key requirements of the Improper Payments Information Act of 2002 (IPIA)[1] and section 831 of the National Defense Authorization Act for Fiscal Year 2002, commonly known as the Recovery Auditing Act.[2] Since fiscal year 2000, we have issued a number of reports and testimonies aimed at raising the level of attention given to improper payments. Most recently, at the Subcommittee's request, we provided a report[3] on summary data and preliminary analysis of the improper payment estimates reported by federal executive branch agencies in their fiscal year 2007 performance and accountability reports (PAR) or annual reports. Our work over the past several years has demonstrated that improper payments are a long-standing, widespread, and significant problem in the federal government. IPIA has increased visibility over improper payments[4] by requiring executive branch agency heads, using guidance from the Office of Management and Budget (OMB),[5] to identify programs and activities susceptible to significant improper payments,[6] estimate amounts improperly paid, and report on the amounts of improper payments and their actions to reduce them. Similarly, the Recovery Auditing Act provides an impetus for applicable agencies to systematically identify and recover contract overpayments. This act requires, among others things, that all executive branch agencies entering into contracts with a total

[1]Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

[2]National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, div. A, title VIII, § 831, 115 Stat. 1012, 1186 (Dec. 28, 2001) (codified at 31 U.S.C. §§ 3561-3567).

[3]GAO, *Improper Payments: Federal Executive Branch Agencies' Fiscal Year 2007 Improper Payment Estimate Reporting*, GAO-08-377R (Washington, D.C.: Jan. 23, 2008).

[4]IPIA defines improper payments as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts.

[5]OMB, Circular No. A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (Aug. 10, 2006).

[6]OMB's guidance defines significant improper payments as those in any particular program that exceed both 2.5 percent of program payments and $10 million annually.

value exceeding $500 million in a fiscal year have cost-effective programs for identifying errors in paying contractors and for recovering amounts erroneously paid. As the steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees annually spend hundreds of billions of taxpayer dollars and is responsible for safeguarding those funds against improper payments as well as having mechanisms in place to recoup those funds when improper payments occur.

OMB has played a key role in the oversight of the governmentwide improper payments problem. In 2005, OMB established Eliminating Improper Payments as a new program-specific initiative under the President's Management Agenda (PMA). This separate PMA program initiative is intended to help to ensure that agency managers are held accountable for meeting the goals of IPIA and are, therefore, dedicating the necessary attention and resources to meeting IPIA requirements. OMB continues its commitment to address governmentwide improper payments by working with agencies to establish corrective action plans and address their root causes. OMB also annually reports on agencies' efforts to address IPIA and Recovery Auditing Act requirements.

Today, my testimony will focus on three key areas:

- progress made in agencies' implementation and reporting under IPIA for fiscal year 2007,
- several major challenges that continue to hinder full reporting of improper payment information, and
- agencies' reporting of recovery auditing efforts to recoup contract overpayments.

This testimony is based on our review of available fiscal year 2007 improper payment information reported by 35 federal executive branch agencies that OMB and the Department of the Treasury (Treasury) determined to be significant to the U.S. government's consolidated financial statements. We also added 4 additional executive branch agencies included in the consolidated financial statements, increasing our universe of review to 39 executive branch agencies (agencies). (See app. I for a list of the 39 agencies.)

We reviewed improper payment information reported for 35[7] of the 39 agencies' fiscal year 2007 PARs or annual reports. We also reviewed OMB guidance on implementation of IPIA and the Recovery Auditing Act. In addition, we reviewed agency Office of Inspector General (OIG) reports on management challenges to identify internal control weaknesses and program integrity issues for agency programs reporting improper payment estimates for fiscal year 2007. We did not independently validate the data that agencies reported in their PARs or annual reports. However, we are providing agency-reported data as descriptive information that will inform interested parties about the magnitude of reported governmentwide improper payments and amounts recouped through recovery audits and other improper payment-related information. We believe the data to be sufficiently reliable for this purpose. We provided information on the major findings discussed in this statement to OMB. OMB provided technical comments that we incorporated as appropriate.

We conducted this performance audit from December 2007 to January 2008 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.

Progress Made to Estimate and Reduce Improper Payments

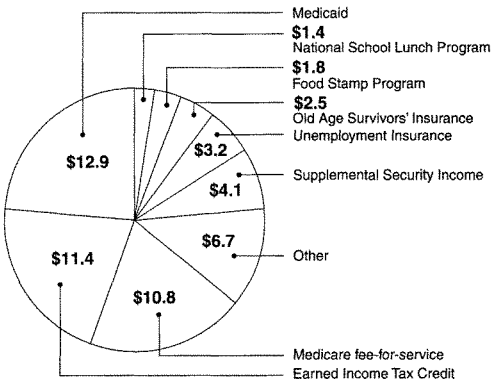
Agencies reported improper payment estimates of almost $55 billion in their fiscal year 2007 PARs or annual reports, an increase from the fiscal year 2006 estimate of about $41 billion.[8] The reported increase was primarily attributable to a component of the Medicaid program reporting improper payment estimates for the first time totaling about $13 billion for fiscal year 2007, which we view as a positive step to improve transparency over the full magnitude of improper payments. The $55 billion estimate consists of 78 programs in 21 agencies (see app. II for further details) and represents about 2 percent of total fiscal year 2007 federal executive branch agencies' government outlays of almost $2.8 trillion. In addition,

[7]Four of the agencies had not issued their annual reports as of the end of our fieldwork.

[8]In their fiscal year 2007 PARs or annual reports, certain federal agencies updated their fiscal year 2006 improper payment estimates to reflect changes since issuance of their fiscal year 2006 PARs or annual reports. These updates decreased the governmentwide improper payment estimate for fiscal year 2006 from $42 billion to $41 billion.

the $55 billion largely consists of improper payments made in eight programs, as shown in figure 1. Collectively, the eight programs account for about $48 billion or approximately 88 percent of the total estimate.

Figure 1: Fiscal Year 2007 Improper Payment Estimates by Program (Dollars in Billions)



Source: GAO analysis of agencies' fiscal year 2007 PARs or annual reports.

Also, of the total improper payment estimate of $55 billion, we identified 19 programs and activities[9] that estimated improper payments for the first time in their fiscal year 2007 PARs, totaling about $16 billion. Of these 19 programs, we identified 6—including Medicaid—that had been required to report selected improper payment information for several years prior to

[9]Of the 19 programs, 5 reported an improper payment estimate of zero for fiscal year 2007.

the passage of IPIA.[10] In total, these 6 programs represented $14.8 billion, or 94 percent, of the approximately $16 billion in newly reported programs. We view these agencies' efforts as a positive step toward measuring improper payments and continuing progress in meeting the goals of IPIA.

Likewise, agencies continued to report that they had made progress to reduce improper payments in their programs and activities. Since initial IPIA implementation, we noted that 39 agency programs reported improper payment estimated error rates[11] for each of the 4 fiscal years—2004 through 2007. Of the 39, 23 programs, or about 59 percent had reduced error rates when comparing each program's fiscal year 2007 error rate to the initial or baseline error rate reported for fiscal year 2004. In a separate analysis, we found that the number of programs with error rate reductions totaled 34 when comparing fiscal year 2007 error rates to the prior year rates. For example, the error rate of the U.S. Department of Agriculture's (USDA) Marketing Assistance Loan program decreased from 20.3 percent in fiscal year 2006 to 7.5 percent in fiscal year 2007, a reduction of 12.8 percent. As we testified before this Subcommittee,[12] USDA's high error rate for the Marketing Assistance Loan program reported in its fiscal year 2006 PAR resulted from improvements in how it measured its improper payments. However, in its fiscal year 2007 PAR, USDA reported that a large percentage of fiscal year 2006 improper payments were caused by noncompliance with administrative procedures and that corrective actions had been taken to reduce the instance of improper payments. Reported examples of corrective actions taken included implementing policies related to processing payments, conducting more frequent external audits of program effectiveness, and making the delivery of services consistent across county offices.

[10]Prior to the governmentwide IPIA reporting requirements beginning with fiscal year 2004, former section 57 of OMB Circular No. A-11 required certain agencies to submit similar information, including estimated improper payment target rates, target rates for future reductions in these payments, the types and causes of these payments, and variances from the targets and goals established. In addition, these agencies were to provide a description and assessment of the current methods for measuring the rate of improper payments and the quality of data resulting from these methods.

[11]Reported error rates reflect the rate of error as a percentage of total program outlays. The error rates are based on estimates and not actual findings of error.

[12]GAO, *Improper Payments: Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements Continue*, GAO-07-635T (Washington, D.C.: Mar. 29, 2007).

OMB noted that further reductions in agency program estimated error rates are expected as agencies take steps to address payment errors attributed to insufficient or lack of documentation. OMB's implementing guidance requires agencies to discuss in their PAR the portion of payment errors attributable to insufficient or lack of documentation, if applicable. We identified 25 programs from 10 agencies that attributed a portion of their payment errors to insufficient or no documentation. However, only 8 of these programs—all reported by USDA—cited what portion of the error rate resulted from insufficient or no documentation. The other agencies only reported that these types of errors contributed to the cause for the improper payments in the remaining 17 programs. For example, the Department of State (State) reported that there was insufficient documentation to support eligibility for the grantee of an award, but did not cite a rate for this type of error. Similarly, the Federal Communications Commission (FCC) reported that lack of documentation was a significant concern of the auditors' review of program payments, but did not report the affected portion of the error rate.

Because agencies for 17 of the 25 agency programs that attributed some of their payment errors to insufficient or no documentation did not report the portion of payment errors attributable to these problems, we could not readily determine the extent to which such errors contributed to the total improper payment estimate of $55 billion. Yet, we found that 25 of the 78 programs reporting improper payment estimates, or 32 percent, identified insufficient or no documentation errors as a cause of their improper payments. OMB anticipates that errors attributable to insufficient or no documentation will decrease significantly once agencies correct the root cause. From our review, we noted that 22 of the 25 agency programs reported corrective action plans to address errors due to insufficient or no documentation. Examples of these efforts included development of policies on documentation retention, updating processing procedures, and training for providers on the importance of supporting documentation.

Challenges Continue with IPIA Implementation

While agencies have shown progress, major challenges remain in meeting the goals of IPIA and ultimately improving the integrity of payments. Specifically, some agencies have not yet reported estimates for all risk-susceptible programs, the total improper payment estimate does not yet reflect the full scope of improper payments across executive branch agencies, noncompliance issues continue to exist, reported statutory or regulatory barriers limit agencies' ability to reduce improper payments, and agencies continue to face challenges in the implementation or design of internal controls to identify and prevent improper payments.

Risk Assessments

IPIA requires agencies to annually review all of their programs and activities to identify those that may be susceptible to significant improper payments. Yet, in our review, we found that not all agencies reported conducting risk assessments. We also noted that four agencies[13] reported that they did not conduct a risk assessment of all of their programs and activities because OMB guidance allows agency programs deemed not risk-susceptible to conduct a risk assessment generally every 3 years. As we have previously reported,[14] this is inconsistent with the express terms of IPIA, which require that agencies annually review all of their programs and activities. However, OMB guidance does state that if a program experiences a significant change in legislation, a significant increase in funding level, or both, agencies are required to reassess the program's risk susceptibility during the next annual cycle, even if it is less than 3 years from the last assessment. In its fiscal year 2007 PAR, the Department of the Interior (Interior) reported that it did not perform a risk assessment because the results of previous risk assessments demonstrated that Interior was at low risk for making improper payments. As a result, the agency reported that the next risk assessment would be completed in fiscal year 2009. HHS reported that it had last completed risk assessments in fiscal year 2006 in which HHS did not identify any new high-risk programs in its fiscal year 2006 risk assessment work. HHS reported that OMB's implementing guidance requires risk assessments once every 3 years and as a result, HHS did not perform risk assessments during fiscal year 2007.[15]

We also identified three additional agencies[16] that reported they were not required to conduct a risk assessment for specific programs that OMB had previously designated as risk-susceptible prior to IPIA implementation. These agencies determined that those programs had continued to demonstrate over a 2-year period a low-risk level for susceptibility to

[13]The four agencies are the General Services Administration, Department of Health and Human Services, Department of the Interior, and National Science Foundation.

[14]GAO, *Improper Payments: Weaknesses in USAID's and NASA's Implementation of the Improper Payments Information Act and Recovery Auditing*, GAO-08-77 (Washington, D.C.: Nov. 9, 2007).

[15]OMB officials stated that HHS has identified about 93 percent of its total outlays as high-risk.

[16]The three agencies are the Environmental Protection Agency, Department of Housing and Urban Development, and Department of Veterans Affairs.

improper payments and thus, OMB had granted them relief from improper payments reporting. According to their PARs, the next risk assessments for the Environmental Protection Agency's (EPA) Clean Water and Drinking Water State Revolving Funds and Department of Veterans Affairs (VA) Insurance programs will be conducted in fiscal years 2010 and 2009, respectively. The Department of Housing and Urban Development (HUD) reported that it will conduct an annual risk assessment of its Community Development and Block Grant (CDBG) program; however, because it reported over 2 consecutive years[17] error rates of less than $10 million for this program, OMB granted it relief from annual improper payment reporting and it did not report an estimate in its fiscal year 2007 PAR.

OMB reported that, in aggregate, agencies have assessed risk and measured nearly 86 percent of all high-risk outlays and that agencies were focusing their resources on programs with the highest risk levels of improper payments. While we agree that, as a practical matter, a comprehensive risk assessment may not be warranted for programs with minimal outlays or potentially low-risk programs and activities, an appropriately designed risk assessment should be performed annually as it is required of agencies to comply with IPIA. As we previously reported,[18] OMB guidance provides that agencies annually perform risk assessments of their programs and activities, but offers limited information on how to conduct an appropriately designed risk assessment, thus allowing agencies broad flexibility for determining a methodology to meet IPIA requirements. As such, the level and extent to which agencies conduct their risk assessments can vary. This is evident in our recent work on selected agencies' IPIA implementation, in which we raised significant concerns regarding their risk assessment activities, as highlighted in the following examples:

- In September 2007, we reported[19] that for fiscal year 2006, the Department of Homeland Security (DHS) did not perform a risk

[17]In its fiscal year 2006 PAR, HUD reported an error rate for the first time for its CDBG program for fiscal years 2003, 2004, and 2005.

[18]GAO, *Improper Payments: Agencies' Fiscal Year 2005 Reporting under the Improper Payments Information Act Remains Incomplete*, GAO-07-92 (Washington, D.C.: Nov. 14, 2006) and GAO-08-77.

[19]GAO, *Department of Homeland Security: Challenges in Implementing the Improper Payments Information Act and Recovering Improper Payments*, GAO-07-913 (Washington, D.C.: Sept. 19, 2007).

assessment on approximately $13 billion of its more than $29 billion in disbursements subject to IPIA. Also, DHS only tested programs with disbursements greater than $100 million and did not perform a qualitative risk assessment of all program operations, such as an assessment of internal controls, oversight and monitoring activities, and results from external audits.

- In November 2007, we reported[20] that for fiscal years 2004 through 2006, neither the United States Agency for International Development (USAID) nor the National Aeronautics and Space Administration (NASA) had developed a systematic process to (1) identify risks that exist in their payment activities or (2) evaluate the results of their payment stream reviews, such as weighting and scoring the effectiveness of existing internal control over payments made and results from external audits. Furthermore, both USAID and NASA maintained insufficient or no risk assessment documentation to support their conclusions that no programs or activities were susceptible to significant improper payments.

- In December 2007, we reported[21] that the Department of Defense's (DOD) travel payment data used to assess the program's risk of significant improper payments only included payments processed by the Defense Travel System (DTS)—approximately 10 percent of the $8.5 billion of the department's travel obligations reported for fiscal year 2006. Further, the travel data excluded the largest user of DTS, the Army, which would likely have increased DOD's travel improper payment estimate of $8 million by over $4 million.[22] In its fiscal year 2007 PAR, DOD reported that the agency is implementing a sampling and review process for Army travel payments processed through its Integrated Automated Travel System in fiscal year 2008 to meet improper payment reporting requirements.

Although we have identified significant deficiencies in the risk assessment methodology used to address IPIA requirements at the four agencies

[20]GAO-08-77.

[21]GAO, *DOD Travel Improper Payments: Fiscal Year 2006 Reporting Was Incomplete and Planned Improvement Efforts Face Challenges*, GAO-08-16 (Washington, D.C.: Dec. 14, 2007).

[22]In its fiscal year 2007 PAR, DOD restated its fiscal year 2006 estimate for travel pay from $8 million to $29.4 million. DOD reported that the restatement was made to primarily include travel payments made outside of DTS.

mentioned above, not all agencies have been subjected to an independent review. Therefore, the extent to which the results of the agencies' risk assessments can be relied on may not be fully known. We have previously recommended that OMB expand its implementing guidance to describe in greater detail factors that agencies should consider when conducting their annual risk assessments, such as program complexity, operational changes, findings from investigative reports, and financial statement and performance audit reports. OMB agreed with this recommendation and stated that it has taken steps to address implementing it. Specifically, OMB stated that it had included factors to be considered in agency risk assessments in its revised implementation guidance for IPIA.

Improper Payment Estimates

Our review found that not all agencies have developed improper payment estimates for all of the programs and activities they identified as susceptible to significant improper payments. As shown in table 1, the fiscal year 2007 total improper payment estimate of $55 billion did not include any amounts for 14 programs, with fiscal year 2007 outlays totaling about $170 billion.

Table 1: Risk-Susceptible Programs That Did Not Report Improper Payment Estimates for Fiscal Year 2007

	Agency—program	Fiscal year 2007 outlays (dollars in billions)	Target date for reporting improper payment estimate
1	Department of Health and Human Services—Child Care and Development Fund[a]	$ 4.9	2008
2	Department of Health and Human Services—Medicare Advantage	75.1	Did not report target date
3	Department of Health and Human Services—Medicare Prescription Drug Benefit	49.3	Did not report target date
4	Department of Health and Human Services—State Children's Health Insurance Program[a]	6.3	2008
5	Department of Health and Human Services—Temporary Assistance for Needy Families[a]	17.3	2008
6	Department of Homeland Security—Federal Emergency Management Agency—Assistance to Firefighters Grants	0.5	2008
7	Department of Homeland Security—Federal Emergency Management Agency—Homeland Security Grant Program	0.8	2008
8	Department of Homeland Security—Federal Emergency Management Agency—Infrastructure Protection Program	0.12	2008
9	Department of Homeland Security—Federal Emergency Management Agency—National Flood Insurance Program	1.5	2008
10	Department of Homeland Security—Federal Emergency Management Agency—Public Assistance Programs	5.1	2008

	Agency—program	Fiscal year 2007 outlays (dollars in billions)	Target date for reporting improper payment estimate
11	Department of Homeland Security—Immigration and Customs Enforcement—Detention and Removal Operations	1.2	2008
12	Department of Homeland Security—Immigration and Customs Enforcement—Investigations	1.1	2008
13	Department of Homeland Security—Transportation Security Administration—Aviation Security—Payroll	2.9	2008
14	Department of Homeland Security—United States Coast Guard—Military Payroll	3.5	2008
	Total	**$ 169.6**	

Source: GAO's analysis of agencies' fiscal year 2007 PARs or annual reports.

[a]OMB required program to submit improper payment information prior to governmentwide IPIA reporting requirements. See footnote 10 of this testimony for a detailed description.

A majority of these programs represent newly identified risk-susceptible programs reported by DHS. The identification of these programs as risk-susceptible is a positive step toward addressing IPIA requirements. We also found, however, that three Department of Health and Human Services (HHS) programs had not reported improper payment estimates for fiscal year 2007, even though OMB had required these and other programs to report selected improper payment information for several years before passage of IPIA.[23] After the enactment of IPIA, OMB's implementing guidance required that these programs continue to report improper payment information under IPIA.

Since IPIA implementation, HHS has reported on its various improper payment pilot activities to show that efforts were underway to fully address IPIA reporting requirements. For fiscal year 2007, HHS reported that pilot reviews were conducted in various states for the Temporary Assistance for Needy Families and Child Care and Development Fund programs and that estimated improper payment rates for these programs would be reported in fiscal year 2008. Further, HHS reported that it also expects to report a comprehensive improper payment estimate rate for the State Children's Health Insurance Program that will encompass its fee-for-service, managed care, and eligibility components. We recognize that measuring improper payments for these state-administered[24] programs and

[23]See footnote 10.

[24]The term state-administered refers to federal programs that are managed on a day-to-day basis at the state level to carry out program objectives.

designing and implementing actions to reduce or eliminate them are not simple tasks, particularly for grant programs that rely on administration efforts at the state level. Consequently, as we previously reported in April 2006,[25] communication, coordination, and cooperation among federal agencies and the states will be critical factors in estimating national improper payment rates and meeting IPIA reporting requirements for state-administered programs.

Further, we found a few instances where estimates were not based on a 12-month reporting period. For example, HHS's Medicaid program is the largest of the programs constituting the total improper payment estimate, with an estimate of about $13 billion for fiscal year 2007. Reporting for the first time, the Medicaid program estimate is based on 6 months of fee-for-service claims processed by the states rather than a complete fiscal year. Generally, OMB guidance requires that a 12-month period be used to generate improper payment estimates as it more fully characterizes the extent of improper payments within a program for any given year. In its PAR, HHS reported that it is completing its review of the remaining 6 months and will report an annual Medicaid fee-for-service error rate, based on a full fiscal year 2006 fee-for-service claims, in its fiscal year 2008 PAR.[26]

We also found instances where agencies' estimates encompassed only one component of a particular program. For example, USDA identified two types of errors related to its Supplemental Nutrition Program for Women, Infants, and Children—vendor payment errors and certification errors. However, as part of its IPIA reporting, USDA only reported on improper payments resulting from vendor payment errors. For certification errors, USDA reported that it plans to use results from the 2008 decennial income verification study to provide a nationally representative estimate and will report the error rate in fiscal year 2009.

The extent to which other agencies used a period of review less than 12 months or estimated for only a component of their program is unknown, as most of the agencies reporting estimates did not provide this level of

[25]GAO, *Improper Payments: Federal and State Coordination Needed to Report National Improper Payment Estimates on Federal Programs*, GAO-06-347 (Washington, D.C.: Apr. 14, 2006).

[26]OMB officials added that HHS also plans to report an estimate on its fiscal year 2007 fee-for-service claims data.

information in their PARs. As agencies continue to enhance their measurement process and report on additional program components, it is likely the total improper payment estimate will increase.

Lastly, we noted that while agencies reported improper payment estimates for their various programs and activities, only five agencies—consisting of nine programs—reported to some degree the amount of actual improper payments they expect to recover and how they will go about recovering them as part of their IPIA reporting. OMB guidance states that for program improper payment estimates exceeding $10 million, agencies must address this IPIA reporting requirement in their PARs. We would also point out that this separate reporting requirement is distinct and different from the recovery auditing reporting requirements OMB has outlined in its guidance for agencies to address in their PAR reporting. We discuss the Recovery Auditing Act and OMB reporting requirements later in this statement.

We found that of the 78 programs with improper payments estimates, 47 reported improper payment estimates exceeding $10 million. Of this universe, only 9 agency programs reported on recovery of improper payments under IPIA. Of the 9, 6 programs reported on both aspects of the requirement—expected or actual recovery amount and how they will recover them. The remaining 3 programs reported a recovery amount but did not discuss how they recovered the amount, or their future plans for recovering the funds. For example, DHS reported that for its Individuals and Households program it had collected $18 million of Hurricane Katrina payments identified as improper during its payment sample testing, but did not report on its recovery method. In contrast, the Railroad Retirement Board (RRB) reported it had recovered $104.5 million for fiscal years 2003 to 2006 in Retirement and Survivors Benefits program receivables. RRB reported that its collection program is in full compliance with the Debt Collection Improvement Act of 1996 and recoveries are made through a variety of mechanisms. These include the offset of future benefits, reclamation from the financial institution of benefits erroneously paid after the death of a beneficiary, and direct payments from debtors. RRB also reported that fraudulent payments are referred to the OIG for prosecution through the Department of Justice (Justice). As agencies continue to enhance their IPIA reporting, full and reasonable disclosures regarding actual improper payments and actions to recover those payments will provide needed transparency of this issue and address the American public's increasing demands for accountability over taxpayer funds.

Noncompliance Issues with IPIA

For fiscal year 2007, a limited number of agency auditors reported on compliance issues with IPIA as part of their financial statement audit, although such reporting is not specifically required by IPIA. Specifically, auditors for 5 of the 39 agencies[27] included in our scope reported assessing the agencies' compliance with IPIA. Of the 5, agency auditors for all except USAID reported noncompliance issues related to the key requirements of the act, including risk assessments, sampling methodologies, implementing corrective actions, recovering improper payments, and inadequate documentation. Fiscal year 2007 reflected the fourth year that auditors for HHS and DHS reported noncompliance issues with IPIA, including not estimating for all risk-susceptible programs and deficiencies related to sampling and testing of transactions. Agency auditors at the Department of Transportation (Transportation) and DOD reported noncompliance with IPIA for a second year. For fiscal year 2007, Transportation auditors reported that they had not received sufficient documentation by the time of PAR issuance to determine if the department's sampling plan was statistically valid. The auditors for DOD reported for fiscal year 2007, that the department was still in the process of developing procedures to identify improper payments and that its efforts to manage recovery audit contracts had been largely unsuccessful.

As we previously testified before this Subcommittee,[28] separate assessments conducted by agency auditors provided a valuable independent validation of agencies' efforts to implement the act. Independent assessments would also enhance an agency's ability to identify sound performance measures, monitor progress against those measures, and help establish performance and results expectations. Without this type of validation or other types of reviews performed by GAO and agency OIGs, it is difficult to determine the magnitude of deficiencies that may exist in agencies' IPIA implementation efforts.

Statutory or Regulatory Barriers

As previously mentioned, for fiscal year 2007, 21 agencies reported improper payment estimates for 78 programs totaling $55 billion for fiscal year 2007. Of the 21 agencies, 16 reported improper payment estimates that exceeded $10 million for one or more programs, and therefore, under OMB guidance, were required to report on various elements as part of their plan to reduce improper payments, including any statutory or

[27]The five agencies are USAID and the Departments of Defense, Homeland Security, Health and Human Services, and Transportation.

[28]GAO-07-635T.

regulatory barrier that may limit the agencies' corrective actions in reducing improper payments. Of the 16 agencies required to report on any statutory or regulatory barriers,[29] 14 agencies reported on whether they had such barriers which may limit corrective actions in reducing improper payments. The remaining 2 agencies[30] did not address whether any statutory or regulatory barriers existed. We further noted that of the 14 agencies that addressed statutory or regulatory barriers, 9 identified such barriers that may limit corrective actions to reduce improper payments. The remaining 5 agencies[31] reported that they either had no existing statutory or regulatory barriers or were unaware of any at this time.

Agencies cited various barriers that restricted their ability to better manage their programs against improper payments. For example, the Office of Personnel Management's (OPM) Retirement Program (Civil Service Retirement System and Federal Employees Retirement System) reported in its fiscal year 2007 PAR that it faces regulatory barriers that restrict its ability to recover improper payments. For instance, once OPM learns of the death of an annuitant, it requests that Treasury reclaim all posthumously issued payments from the deceased's bank account. When there is insufficient money in the account, OPM would like to seek collection from the individual who last withdrew money from the account. According to OPM, based on current law[32] and Treasury's regulations, financial institutions are barred from providing OPM with the information necessary to recover these improper payments. The law and regulations have specifically exempted the Social Security Administration (SSA), RRB, and VA from this prohibition, but not OPM. Further, OPM reported that this situation has a substantial impact on its ability to prevent and recover improper payments. OPM has determined that the current law will need to

[29]The regulatory barriers reported represent governmentwide regulations that the agency has no authority to modify.

[30]The two agencies are the Department of Energy and the Department of Housing and Urban Development.

[31]The five agencies are the Department of Defense, Federal Communication Commission, Department of Homeland Security, Railroad Retirement Board, and Department of Transportation.

[32]Generally, the Right to Financial Privacy Act of 1978, Pub. L. No. 95-630, title XI, 92 Stat. 3641, 3697-3710 (Nov. 10, 1978) (codified, as amended, at 12 U.S.C. § 3401-3422), requires financial institutions to obtain permission from their customers to disclose financial information. According to OPM, this requirement in effect bars OPM from obtaining posthumous payments information, preventing recovery of improper payments.

be amended to overcome this prohibition and Treasury has drafted legislative language to address this issue.

The Department of Education (Education) reported that the ability to perform data matching between Federal Student Aid applications and tax return data would substantially reduce improper payments in the Pell Grant program, as the large majority of errors are the result of misreporting of income and related data fields. However, according to OMB, Section 6103(c) of the Internal Revenue Code, concerning confidentiality of tax return information, precludes data matching with regard to grants by Education. In its January 2007 annual report[33] on improper payments, OMB reported that the President's Fiscal Year 2008 Budget contained a series of reforms that are necessary to achieve greater program integrity and payment accuracy, including a proposal to facilitate data matching of Pell grant program data. This report indicates that, through administrative changes, Education and the Internal Revenue Service intend to implement a process to verify students' (and their parents') income, tax, and certain household information appearing on their tax return that they provided as part of their application for federal student aid.

Management Challenges

Agencies continue to face challenges in the implementation or design of internal controls to identify and prevent improper payments. Over half of the agencies' OIG identified management or performance challenges that could increase the risk of improper payments, including challenges related to internal controls. In addition, several OIGs identified instances where agencies needed to improve their oversight of grantees receiving federal funds. For example, in its fiscal year 2007 PAR, Education's OIG reported that its recent investigations continued to uncover problems, including inadequate attention to improper payments and failure to identify and take corrective action to detect and prevent fraudulent activities by grantees. The Small Business Administration's (SBA) OIG included a management challenge related to the agency's controls over the section 7(a) loan guaranty purchase process. The OIG reported that the majority of the loans made under the program are made with little or no review by SBA prior to loan approval because SBA has delegated most of the credit decisions to lenders originating these loans. SBA's review of lender

[33]Office of Management and Budget, *Improving the Accuracy and Integrity of Federal Payments*, (Washington, D.C.: Jan. 31, 2007).

requests for guaranty purchases on defaulted loans is, therefore, the agency's primary tool for assessing lender compliance on individual loans and protecting SBA from making erroneous purchase payments. However, OIG audits of early defaulted loans and SBA's guaranty purchase process have shown that reviews made by the National Guaranty Purchase Center have not consistently detected lender failures to administer loans in full compliance with SBA requirements and prudent lending practices, resulting in improper payments.

Management challenges were also found in agency programs that did not estimate improper payments in their fiscal year 2007 PAR. The National Science Foundation (NSF) OIG found that NSF did not have a comprehensive, risk-based system to oversee and monitor contract awards and ensure that the requirements of each contract were being met. In another example, Treasury's OIG identified erroneous and improper payments as a major management challenge and reported that some tax credits, such as the Education Credit, provide opportunities for abuse in income tax claims. Related to this issue, Treasury's independent auditor reported that weaknesses in controls over the collection of tax revenues owed to the federal government and over the issuance of tax refunds resulted in lost revenue to the federal government and potentially billions of dollars in improper payments, which the auditors classified as a material weakness.

Agencies' Efforts to Report Recovery Auditing Information Continue

Section 831 of the National Defense Authorization Act for Fiscal Year 2002 provides an impetus for applicable agencies to systematically identify and recover contract overpayments. The act requires that agencies that enter into contracts with a total value in excess of $500 million in a fiscal year carry out a cost-effective program for identifying and recovering amounts erroneously paid to contractors. The law authorizes federal agencies to retain recovered funds to cover in-house administrative costs as well as to pay contractors, such as collection agencies. Any residual recoveries, net of these program costs, shall be credited back to the original appropriation from which the improper payment was made, subject to restrictions as described in the legislation.

The techniques used in recovery auditing offer the opportunity for identifying weaknesses in agency internal controls, which can be modified or upgraded to be more effective in preventing improper payments before they occur for subsequent contract outlays. However, we would like to emphasize that effective internal control calls for a sound, ongoing invoice review and approval process as the first line of defense in preventing

unallowable contract costs. Given the large volume and complexity of federal payments and historically low recovery rates for certain programs, it is much more efficient and effective to pay bills properly in the first place. Prevention is always preferred to detection and collection. Aside from minimizing overpayments, preventing improper payments increases public confidence in the administration of programs and avoids the difficulties associated with the "pay and chase" aspects of recovering improper payments. Without strong preventive controls, agencies' internal control activities over payments to contractors will not be effective in reducing the risk of improper payments.

Beginning in fiscal year 2004, OMB required that applicable agencies publicly report on their recovery auditing[34] efforts as part of their PAR reporting of improper payment information. Agencies are required to discuss any contract types excluded from review and justification for doing so. Agencies are also required to report, in table format, various amounts related to contracts subject to review and actually reviewed, contract amounts identified for recovery and actually recovered and prior year amounts. In addition, agencies are to discuss the following: a general description and evaluation of the steps taken to carry out a recovery auditing program,[35] a corrective action plan to address root causes of payment error, and a general description and evaluation of any management improvement program.

For fiscal year 2007, agencies reported reviewing about $329 billion in contract payments to vendors under recovery audit programs. From these reviews, agencies reported identifying about $121 million in improper payments for recovery and actually recovering about $87 million, or an

[34]Recovery auditing is a method that agencies can use to recoup detected improper payments. Recovery auditing is a detective control to help determine whether contractor costs were proper. Specifically, it focuses on the identification of erroneous invoices, discounts offered but not received, improper late penalty payments, incorrect shipping costs, and multiple payments for single invoices. Recovery auditing can be conducted in-house or contracted out to recovery audit firms.

[35]OMB defines a recovery audit program as an agency's overall plan for the performance of recovery audits and recovery activities. The head of an agency will determine the manner and combination of recovery audits and activities that are expected to yield the most cost-effective recovery audit program. The program should include a management improvement program. A management improvement program is an agencywide program to address the flaws in an agency's internal controls over contractor payments discovered during the course of implementing a recovery audit program, or other control activities over contractor payments.

estimated overall rate of recovery of approximately 72 percent, as shown in table 2.

Table 2: Agency Reported Improper Payment Amounts Identified and Recovered for Fiscal Years 2006 and 2007

		Fiscal year 2006		Fiscal year 2007	
	Department or agency	Agency-reported amount identified for recovery	Agency-reported amount recovered	Agency-reported amount identified for recovery	Agency-reported amount recovered
1	Agency for International Development	$17,100,000	$17,090,000	$4,010,000	$4,000,000
2	Department of Agriculture	379,000	538,000[a]	206,000	146,000
3	Department of Commerce	96,000	96,000	0[b]	0[b]
4	Department of Defense	195,300,000	137,900,000	24,600,000	19,600,000
5	Department of Education	did not report	did not report	1,500[c]	did not report[c]
6	Department of Energy	11,900,000	10,300,000	15,000,000	10,000,000
7	Environmental Protection Agency	1,102,000	406,500[d]	241,800	65,300
8	General Services Administration	46,721,742	45,917,920	11,200,000	9,400,000
9	Department of Health and Human Services	1,600,000[e]	40,000[e]	635,728	19,549
10	Department of Homeland Security	did not report	did not report	1,836,000[f]	1,213,000[f]
11	Department of Housing and Urban Development	reported not cost beneficial	reported not cost beneficial	reported not cost beneficial[g]	reported not cost beneficial[g]
12	Department of the Interior	4,407,345	505,743	428,332	421,337
13	Department of Justice	1,851,709	1,734,421	4,241,765	3,777,628
14	Department of Labor	reported not cost beneficial	reported not cost beneficial	reported not cost beneficial[g]	reported not cost beneficial[g]
15	National Aeronautics and Space Administration	256,255	139,420	did not report[h]	did not report[h]
16	Social Security Administration	178,000	178,000	1,712,000[i]	1,712,000[i]
17	Department of State	2,397,200	2,276,700	5,353,615	4,900,338
18	Tennessee Valley Authority	6,793,581	1,202,651	6,605,111	2,715,183
19	Department of Transportation	6,450,993	45,109	6,546,901	1,217,525
20	Department of the Treasury	2,305,424	1,442,708	843,230	821,667
21	Department of Veterans Affairs	39,155,454	30,378,423	37,740,000	27,000,000
	Total	**$337,994,703**	**$250,191,595**	**$121,201,982**	**$87,009,527**

Source: GAO analysis and agencies' fiscal year 2006 and 2007 PARs.

[a]According to USDA, amount recovered in fiscal year 2006 includes some recoveries identified in fiscal year 2005.

[b]The Department of Commerce recovery audit was for its National Oceanic and Atmospheric Administration bureau only. The recovery auditors did not identify any overpayments during the audit.

[c]Education reported that the contractor's review of fiscal year 2006 contract invoices found no more than $1,500 in potential recoveries.

[d]EPA reported recovered amounts for fiscal year 2006 in its fiscal year 2007 PAR.

[e]We obtained these amounts from OMB.

[f]DHS reported that OMB granted it relief from recovery auditing for one of its components, Customs and Border Protection (CBP); however, the request was granted after DHS performed audit recovery work during prior years. The total agency-reported amount includes an amount recovered for CBP in fiscal year 2007.

[g]The Departments of Housing and Urban Development and Labor reported that recovery auditing efforts were not cost beneficial in fiscal years 2005, 2006, and 2007.

[h]NASA plans to report on its recovery audit results in fiscal year 2008.

[i]SSA amounts reported are based on SSA's review of administrative contractor payments.

We found that the number of agencies reporting recovery audit information remained the same when compared to the prior year. However, the fiscal year 2007 dollar amounts identified for recovery significantly decreased by about $217 million from fiscal year 2006. We noted that a significant decrease in DOD's fiscal year 2007 reporting of amounts identified for recovery and amounts recovered from the prior year contributed to the overall decrease. For example, for fiscal year 2006 DOD reported $195.3 million for contract overpayments identified for recovery. This amount decreased sharply to $24.6 million for fiscal year 2007. Similarly, DOD reported recovering $137.9 million for fiscal year 2006 compared to just $19.6 million for fiscal year 2007. According to OMB, the significant decrease in DOD's reported amounts resulted from the department's exclusion of voluntary refunds of contract payments at the recommendation of a DOD OIG audit[36] since the voluntary refunds did not originate from recovery audit efforts.

In addition, we noted that agencies used different types of resources to carry out their recovery audit programs. Of the 21 agencies reporting recovery auditing information for fiscal year 2007, 9 reported they contracted out their recovery audit services, 3 conducted in-house recovery audits, 5 reported using both in-house and recovery audit contractors, and two were silent. The remaining 2 agencies—HUD and

[36]Department of Defense, Office of Inspector General, *Identification and Reporting of Improper Payments Through Recovery Auditing*, D-2007-110 (Arlington, Va.: July 9, 2007).

Labor—did not conduct recovery audits as they reported it was not cost beneficial.

HUD reported in its fiscal year 2007 PAR that current internal controls over its contract payment and contract close-out processes were adequate to reduce the risks of overpayments. HUD further reported on continued initiatives such as strengthening its fund control processes. Therefore, HUD concluded that a recovery auditing program would not be cost beneficial and was not warranted. Likewise, Labor reported that its sampling and testing of nonpayroll costs, consisting of department expenses including contract payments related to the operation and administration of programs' and headquarters' activities for the current and prior fiscal years found no improper payments in its contract payments. Based on these results, Labor decided that a recovery auditing program was not warranted in fiscal year 2007. However, Labor reported that it plans to implement a recovery auditing program for contract payments in fiscal year 2008, and will report its recovery audit actions, costs, and amounts recovered on an annual basis.

From our review of the PARs, we found that agencies' reporting of the various recovery auditing reporting elements[37] was limited. For example, agencies generally provided some information on steps to carry out a recovery audit program. However, less than half, or 8 agencies reported on their corrective action plans to address root causes of contract payment errors. For example, the Department of Energy (Energy) reported that it established a policy that prescribes requirements for identifying overpayments to contractors and establishes reporting standards to track the status of recoveries. However, Energy did not report on corrective actions to address the root causes of contract overpayments.

We also found that three agencies—Department of Commerce (Commerce), Justice, and SSA—reported on justifications for certain contracts that were excluded from their recovery audit review. For example, Commerce reported that travel payments, bankcards/purchase cards, all procurement vehicles with other federal agencies, and government bills of lading were excluded from its review, as the costs for

[37]Select reporting elements listed in OMB guidance that we reviewed include (1) a general description of steps to carry out a recovery auditing program, (2) a corrective action plan to address root causes of payment error, (3) a description and justification of the classes of contracts excluded from the auditing review by the agency head, and (4) a general description and evaluation of any management improvement program.

recovery audit activities would likely exceed the benefits of a recovery audit. Justice reported that certain payments at foreign offices were excluded as they were processed by the Department of State. Lastly, SSA reported that it excluded cost-type contracts that either (1) had not been completed where payments are interim, provisional, or otherwise subject to further adjustment by the government in accordance with the terms and conditions of the contract, or (2) were completed, subjected to final contract audit, and prior to final payment of the contractor's final voucher, all prior interim payments were accounted for and reconciled.

Concluding Observations

In closing, we recognize that measuring improper payments and designing and implementing actions to reduce them are not simple tasks or easily accomplished. Further, while internal control should be maintained as the front-line of defense against improper payments, recovery auditing holds promise as a cost-effective means of identifying contractor overpayments. We are pleased that agencies are identifying and reporting on more risk-susceptible programs and have reported that overall program error rates have decreased since IPIA implementation. Yet, we also note that deficiencies continued to be identified regarding agencies' efforts to comply with IPIA based on independent assessments conducted by agency auditors or from past GAO reviews. As agencies continue to strengthen their program integrity efforts and recovery audit reviews, fulfilling the requirements of IPIA and the Recovery Auditing Act will require sustained attention to implementation and oversight to monitor whether desired results are being achieved.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions that you or other members of the Subcommittee may have.

Contact and Acknowledgments

For more information regarding this testimony, please contact McCoy Williams, Managing Director, Financial Management and Assurance, at (202) 512-2600 or by e-mail at williamsm1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Individuals making key contributions to this testimony included Carla Lewis, Assistant Director; Gabrielle Fagan; Neeraj Goswami; Mary Osorno; Christina Quattrociocchi; Donell Ries; and Viny Talwar.

Appendix I: Agencies and Related Programs Included in Our Review of Fiscal Year 2007 Performance and Accountability Reports and Annual Reports

	Department or agency		Program or activity
1	Agency for International Development	1	Cash Transfers
		2	Cooperative Agreements, Grants, and Contracts
2	Department of Agriculture	3	Child and Adult Care Food Program
		4	Conservation Reserve Program
		5	Conservation Security Program
		6	Direct and Counter-Cyclical Payments
		7	Federal Crop Insurance Corporation Program Fund
		8	Food Stamp Program
		9	Loan Deficiency Payments
		10	Marketing Assistance Loan Program
		11	Milk Income Loss Contract Program
		12	Miscellaneous Disaster Programs
		13	National School Lunch Program
		14	Noninsured Assistance Program
		15	Rental Assistance Program
		16	School Breakfast Program
		17	Special Supplemental Nutrition Program for Women, Infants, and Children
		18	Wildland Fire Suppression Management
3	Department of Commerce	19	All programs and activities
4	Department of Defense	20	Civilian Pay
		21	Commercial Pay
		22	Military Health Benefits
		23	Military Pay
		24	Military Retirement Fund
		25	Travel Pay
5	Department of Education	26	Federal Student Aid—Federal Family Education Loan
		27	Federal Student Aid—Pell Grants
		28	Title I
6	Department of Energy	29	Payment programs
7	Environmental Protection Agency	30	Clean Water State Revolving Funds
		31	Drinking Water State Revolving Funds
8	Export-Import Bank of the United States	32	All programs and activities
9	Farm Credit Administration	33	All programs and activities
10	Farm Credit System Insurance Corporation*	34	All programs and activities

	Department or agency		Program or activity
11	Federal Communications Commission	35	Universal Service Fund—High Cost Support Program
		36	Universal Service Fund—Low Income Program
		37	Universal Service Fund—Schools and Libraries
12	Federal Deposit Insurance Corporation[a]	38	All programs and activities
13	Federal Trade Commission	39	All programs and activities
14	General Services Administration	40	All programs and activities
15	Department of Health and Human Services	41	Child Care and Development Fund
		42	Foster Care
		43	Head Start
		44	Medicaid
		45	Medicare Advantage
		46	Medicare Fee-for-service
		47	Medicare Prescription Drug Benefit
		48	State Children's Health Insurance Program
		49	Temporary Assistance for Needy Families
16	Department of Homeland Security	50	Customs and Border Protection—Custodial—Refund & Drawback and Continued Dumping & Subsidy Offset Act & Payments to Wool Manufacturers
		51	Federal Emergency Management Agency—Assistance to Firefighters Grants
		52	Federal Emergency Management Agency—Homeland Security Grant Program
		53	Federal Emergency Management Agency—Individuals and Households Program
		54	Federal Emergency Management Agency—Infrastructure Protection Program
		55	Federal Emergency Management Agency—National Flood Insurance Program
		56	Federal Emergency Management Agency—Public Assistance Programs
		57	Federal Emergency Management Agency—Vendor payments
		58	Immigration and Customs Enforcement—Detention and Removal Operations
		59	Immigration and Customs Enforcement—Federal Protective Service
		60	Immigration and Customs Enforcement—Investigations
		61	Transportation Security Administration—Aviation Security—Payroll
		62	United States Coast Guard—Contract Payments
		63	United States Coast Guard—Military Payroll

	Department or agency		Program or activity
17	Department of Housing and Urban Development	64	Community Development Block Grant (Entitlement Grants, States/Small Cities)
		65	Federal Housing Administration's Single Family Acquired Asset Management System
		66	Low Income Public Housing
		67	Public Housing Capital Fund
		68	Section 8—Project Based
		69	Section 8—Tenant Based
18	Department of the Interior	70	All programs and activities
19	Department of Justice	71	All programs and activities
20	Department of Labor	72	Federal Employees' Compensation Act
		73	Unemployment Insurance
		74	Workforce Investment Act
21	National Aeronautics and Space Administration	75	All programs and activities
22	National Archives and Records Administration	76	All programs and activities
23	National Credit Union Administration[a]	77	All programs and activities
24	National Science Foundation	78	Research and Education Grants and Cooperative Agreements
25	National Transportation Safety Board	79	All programs and activities
26	Nuclear Regulatory Commission	80	All programs and activities
27	Office of Personnel Management	81	Federal Employees Group Life Insurance
		82	Federal Employees Health Benefits Program
		83	Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)
28	Pension Benefit Guaranty Corporation	84	All programs and activities
29	United States Postal Service	85	All programs and activities
30	Railroad Retirement Board	86	Railroad Unemployment Insurance Benefits
		87	Retirement and Survivors Benefits
31	Securities and Exchange Commission	88	Disgorgements and Penalties
		89	Operational Vendor Payments
32	Small Business Administration	90	504 Certified Development Companies (Debentures)
		91	504 Certified Development Companies (Guaranties)
		92	7(a) Business Loan Program (Guaranty Purchases)
		93	7(a) Business Loan Program (Guaranty Approvals)
		94	Disaster Assistance
		95	Small Business Investment Companies
33	Smithsonian Institution[a]	96	All programs and activities
34	Social Security Administration	97	Old Age and Survivors' Insurance

	Department or agency		Program or activity
		98	Disability Insurance
		99	Supplemental Security Income Program
35	Department of State	100	Business Class Travel and Sensitive Payments
		101	International Information Program—U.S. Speaker and Specialist Program
		102	International Narcotic and Law Enforcement Affairs—Narcotics Program
		103	Structures and Equipment
		104	Vendor payments
36	Tennessee Valley Authority	105	Payment programs
37	Department of Transportation	106	Airport Improvement Program
		107	Federal Transit—Capital Investment Grants
		108	Federal Transit—Formula Grants
		109	Highway Planning and Construction
38	Department of the Treasury	110	Earned Income Tax Credit
39	Department of Veterans Affairs	111	Compensation
		112	Dependency and Indemnity Compensation
		113	Education programs
		114	Insurance programs
		115	Loan Guaranty
		116	Non-VA Care Fee
		117	Pensions
		118	Vocational Rehabilitation

Source: GAO's analysis of cited agencies' fiscal year 2007 performance and accountability reports and annual reports.

[a]Agency PAR or annual report was not available as of the end of fieldwork.

Appendix II: Improper Payment Estimates Reported in Agency Fiscal Year 2006 and 2007 Performance and Accountability Reports or Annual Reports

	Department or agency		Program or activity	Fiscal year 2006 total estimate (dollars in millions)	Fiscal year 2006 error rate (percent)	Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)
1	Agency for International Development	1	Cash Transfers	$7.0	0.8	$3.0	0.2
		2	Cooperative Agreements, Grants, and Contracts	15.1	0.2	96.0	1.2
2	Department of Agriculture	3	Child and Adult Care Food Program	16.0	1.8	12.0	1.7
		4	Conservation Reserve Program	64.0	3.5	9.0	0.5
		5	Conservation Security Program (previously Farm Security and Rural Investment)	3.0	0.2	1.0	0.5
		6	Direct and Counter-Cyclical Payments	424.0	5.0	37.0	0.4
		7	Federal Crop Insurance Corporation Program Fund	62.0	1.9	63.0	2.7
		8	Food Stamp Program	1,645.0	5.8	1,794.0	6.0
		9	Loan Deficiency Payments	443.0	9.3	18.0	0.5
		10	Marketing Assistance Loan Program	1,611.0	20.3	458.0	7.5
		11	Milk Income Loss Contract Program	0.0[a]	0.0[a]	8.0	2.2
		12	Miscellaneous Disaster Programs	291.0	12.3	25.0	6.8
		13	National School Lunch Program	0.0[a]	0.0[a]	1,402.0	16.3
		14	Noninsured Assistance Program	25.0	22.9	8.0	13.1
		15	Rental Assistance Program	22.0	3.5	26.0	3.1
		16	School Breakfast Program	0.0[a]	0.0[a]	520.0	24.9
		17	Special Supplemental Nutrition Program for Women, Infants, and Children	21.0	0.6	25.0	0.7
		18	Wildland Fire Suppression Management	7.0	2.5	13.0	1.0
3	Department of Commerce[b]	19	All programs and activities	0.0	0.0	0.0	0.0
4	Department of Defense	20	Civilian Pay	16.7[c]	0.1	74.6	0.3

	Department or agency		Program or activity	Fiscal year 2006 total estimate (dollars in millions)	Fiscal year 2006 error rate (percent)	Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)
		21	Commercial Pay	550.0	0.2	0.0[a]	0.0[a]
		22	Military Health Benefits	83.5[c]	1.0[c]	156.0	2.0
		23	Military Pay	65.9	0.1	370.0	0.5
		24	Military Retirement Fund	49.4[c]	0.1	48.7	0.1
		25	Travel Pay	29.4[c]	0.8[c]	43.6	1.0
5	Department of Education	26	Federal Student Aid—Federal Family Education Loan	258.0[c]	2.2	2.0	0.0[d]
		27	Federal Student Aid—Pell Grants	446.0[c]	3.5	433.0	3.5
		28	Title I	20.6[c]	0.2	87.6	0.7
6	Department of Energy	29	Payment programs	18.5[c]	0.1	19.7	0.1
7	Environmental Protection Agency	30	Clean Water State Revolving Funds	3.5	0.2	1.6	0.1
		31	Drinking Water State Revolving Funds	0.0[e]	0.0[e]	0.0[e]	0.0[e]
8	Export-Import Bank of the United States[f]	32	All programs and activities	0.0	0.0	0.0	0.0
9	Farm Credit Administration	33	All programs and activities	0.0[g]	0.0[g]	0.0[i]	0.0[i]
10	Farm Credit System Insurance Corporation	34	All programs and activities	0.0[i]	0.0[i]	0.0[h]	0.0[h]
11	Federal Communications Commission	35	Universal Service Fund—High Cost Support Program	0.0[e]	0.0[e]	620.0	16.5
		36	Universal Service Fund—Low Income Program	0.0[e]	0.0[e]	75.5	9.5
		37	Universal Service Fund—Schools and Libraries	0.0[e]	0.0[e]	210.0	12.9
12	Federal Deposit Insurance Corporation	38	All programs and activities	0.0[i]	0.0[i]	0.0[h]	0.0[h]
13	Federal Trade Commission[b]	39	All programs and activities	0.0	0.0	0.0	0.0
14	General Services Administration[b]	40	All programs and activities	0.0	0.0	0.0	0.0
15	Department of Health and Human Services	41	Child Care and Development Fund[j]	0.0	0.0	0.0	0.0
		42	Foster Care	124.5[c]	7.7	51.6	3.3
		43	Head Start	210.0	3.1	88.0	1.3
		44	Medicaid	0.0[e]	0.0[e]	12,900.0	18.5

	Department or agency		Program or activity	Fiscal year 2006 total estimate (dollars in millions)	Fiscal year 2006 error rate (percent)	Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)
		45	Medicare Advantage[i]	0.0	0.0	0.0	0.0
		46	Medicare Fee-for-service	10,800.0	4.4	10,800.0	3.9
		47	Medicare Prescription Drug Benefit[i]	0.0	0.0	0.0	0.0
		48	State Children's Health Insurance Program[i]	0.0	0.0	0.0	0.0
		49	Temporary Assistance for Needy Families[i]	0.0	0.0	0.0	0.0
16	Department of Homeland Security	50	Customs and Border Protection—Custodial—Refund & Drawback and Continued Dumping & Subsidy Offset Act & Payments to Wool Manufacturers	18.0[c]	1.2[c]	9.0	0.1
		51	Federal Emergency Management Agency—Assistance to Firefighters Grants[i]	0.0	0.0	0.0	0.0
		52	Federal Emergency Management Agency—Homeland Security Grant Program[i]	0.0	0.0	0.0	0.0
		53	Federal Emergency Management Agency—Individuals and Households Program	369.0[c]	9.5[c]	88.0	9.5
		54	Federal Emergency Management Agency—Infrastructure Protection Program[i]	0.0	0.0	0.0	0.0
		55	Federal Emergency Management Agency—National Flood Insurance Program[i]	0.0	0.0	0.0	0.0
		56	Federal Emergency Management Agency—Public Assistance Programs[i]	0.0	0.0	0.0	0.0
		57	Federal Emergency Management Agency—Vendor payments	159.0[c]	2.4[c]	42.0	2.4

	Department or agency		Program or activity	Fiscal year 2006 total estimate (dollars in millions)	Fiscal year 2006 error rate (percent)	Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)
		58	Immigration and Customs Enforcement—Detention and Removal Operations[i]	0.0	0.0	0.0	0.0
		59	Immigration and Customs Enforcement—Federal Protective Service	0.0[a]	0.0[a]	4.8	0.7
		60	Immigration and Customs Enforcement—Investigations[i]	0.0	0.0	0.0	0.0
		61	Transportation Security Administration—Aviation Security—Payroll[f]	0.0	0.0	0.0	0.0
		62	United States Coast Guard—Contract Payments	0.0[a]	0.0[a]	0.0[a]	0.0[a]
		63	United States Coast Guard—Military Payroll[f]	0.0	0.0	0.0	0.0
17	Department of Housing and Urban Development	64	Community Development Block Grant (Entitlement Grants, States/Small Cities)	4.4	0.1	0.0[j]	0.0[j]
		65	Federal Housing Administration's Single Family Acquired Asset Management System	0.0[j]	0.0[j]	0.0[j]	0.0[j]
		66	Low Income Public Housing	378.5	1.4	322.9	1.2
		67	Public Housing Capital Fund	0.0[j]	0.0[j]	0.0[j]	0.0[j]
		68	Section 8—Project Based	362.6	1.3	410.8	1.5
		69	Section 8—Tenant Based	723.2	2.7	785.4	2.9
18	Department of the Interior[b]	70	All programs and activities	0.0	0.0	0.0	0.0
19	Department of Justice[b]	71	All programs and activities	0.0	0.0	0.0	0.0
20	Department of Labor	72	Federal Employees' Compensation Act	0.7[c]	0.0[d]	2.6	0.1
		73	Unemployment Insurance	3,376.0	10.7	3,248.0	10.3
		74	Workforce Investment Act	6.4	0.2	2.9	0.1
21	National Aeronautics and Space Administration[b]	75	All programs and activities	0.0	0.0	0.0	0.0
22	National Archives and Records Administration[b]	76	All programs and activities	0.0	0.0	0.0	0.0

	Department or agency		Program or activity	Fiscal year 2006 total estimate (dollars in millions)	Fiscal year 2006 error rate (percent)	Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)
23	National Credit Union Administration	77	All programs and activities	0.0[b]	0.0[b]	0.0[b]	0.0[b]
24	National Science Foundation	78	Research and Education Grants and Cooperative Agreements	0.0[j]	0.0[j]	0.0[j]	0.0[j]
25	National Transportation Safety Board[f]	79	All programs and activities	0.0	0.0	0.0	0.0
26	Nuclear Regulatory Commission[b]	80	All programs and activities	0.0	0.0	0.0	0.0
27	Office of Personnel Management	81	Federal Employees Group Life Insurance	0.8	0.1	0.8	0.0[d]
		82	Federal Employees Health Benefits Program	62.5	0.2	168.7	0.5
		83	Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)	253.5	0.4	253.5	0.4
28	Pension Benefit Guaranty Corporation[b]	84	All programs and activities	0.0	0.0	0.0	0.0
29	United States Postal Service[f]	85	All programs and activities	0.0	0.0	0.0	0.0
30	Railroad Retirement Board	86	Railroad Unemployment Insurance Benefits	2.7	2.6[c]	2.9	2.6
		87	Retirement and Survivors Benefits	128.6[c]	1.4[c]	133.3	1.4
31	Securities and Exchange Commission	88	Disgorgements and Penalties	0.0[b]	0.0[b]	0.0[k]	0.0[k]
		89	Operational Vendor Payments	0.0[b]	0.0[b]	0.0[d]	0.0[d]
32	Small Business Administration	90	504 Certified Development Companies (Debentures)	0.0[c, k]	0.0[c, k]	0.0[k]	0.0[k]
		91	504 Certified Development Companies (Guaranties)	0.0[c, k]	0.0[c, k]	0.0[k]	0.0[k]
		92	7(a) Business Loan Program (Guaranty Purchases)	10.2	1.6	2.6	0.4
		93	7(a) Business Loan Program (Guaranty Approvals)	0.0[k]	0.0[k]	0.0[k]	0.0[k]
		94	Disaster Assistance	89.4	0.8	4.5	0.6

	Department or agency		Program or activity	Fiscal year 2006 total estimate (dollars in millions)	Fiscal year 2006 error rate (percent)	Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)
		95	Small Business Investment Companies	0.0[c,k]	0.0[c,k]	4.0	0.2
33	Smithsonian Institution	96	All programs and activities	0.0[i]	0.0[i]	0.0[h]	0.0[h]
34	Social Security Administration	97	Old Age and Survivors' Insurance	3,280.0	0.6	2,504.0	0.4
		98	Disability Insurance	0.0[a]	0.0[a]	0.0[a]	0.0[a]
		99	Supplemental Security Income Program	3,028.0	7.8	4,089.0	10.1
35	Department of State	100	Business Class Travel and Sensitive Payments	0.0[a]	0.0[a]	0.6	4.0
		101	International Information Program—U.S. Speaker and Specialist Program	6.7	23.8	0.9	4.0
		102	International Narcotic and Law Enforcement Affairs—Narcotics Program	12.4	4.0	0.0[a]	0.0[a]
		103	Structures and Equipment	0.0[j]	0.0[j]	0.0[a]	0.0[a]
		104	Vendor payments	0.0[j]	0.0[j]	0.0[a]	0.0[a]
36	Tennessee Valley Authority	105	Payment programs	8.7	0.1	6.6	0.1
37	Department of Transportation	106	Airport Improvement Program	0.0[a]	0.0[a]	0.0[k]	0.0[k]
		107	Federal Transit—Capital Investment Grants	0.0[a]	0.0[a]	0.6	1.1
		108	Federal Transit—Formula Grants	0.0[a]	0.0[a]	4.3	0.3
		109	Highway Planning and Construction	30.2	0.2	55.2	0.2
38	Department of the Treasury	110	Earned Income Tax Credit	10,700.0	25.5	11,350.0	25.5
39	Department of Veterans Affairs	111	Compensation	324.6	1.0	240.8	0.8
		112	Dependency and Indemnity Compensation	0.0[a]	0.0[a]	0.0[a]	0.0[a]
		113	Education programs	67.2	2.2	101.0	3.7
		114	Insurance programs	0.0[j]	0.0[j]	0.0[j]	0.0[j]
		115	Loan Guaranty	0.9	0.1	4.7	0.5
		116	Non-VA Care Fee	0.0[a]	0.0[a]	92.6	5.9
		117	Pensions	370.6	10.7	303.9	8.6

Department or agency		Program or activity	Fiscal year 2006 total estimate (dollars in millions)	Fiscal year 2006 error rate (percent)	Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)
	118	Vocational Rehabilitation	6.0	1.0	4.0	0.7
		Total	**$41,112.9**		**$54,744.8**	

Source: GAO's analysis of cited agencies' fiscal year 2006 and fiscal year 2007 performance and accountability reports or annual reports.

[a]Agency did not report an annual improper payment estimate or error rate.

[b]Agency reported that it had no programs or activities susceptible to significant improper payments.

[c]Fiscal year 2006 estimate or error rate was updated to the revised estimate or error rate reported in the fiscal year 2007 PAR or annual report.

[d]Agency error rate was less than one percent or error rate rounded to zero for purposes of this testimony.

[e]Agency combined with the program above.

[f]Agency did not address improper payments or IPIA in its PAR or annual report for fiscal year 2006, fiscal year 2007, or both.

[g]Fiscal year 2007 was the first year this agency was included in our scope of review.

[h]Agency PAR or annual report was not available as of the end of fieldwork.

[i]Agency reported that it would estimate improper payments in the future for this program. See table 1 of this testimony.

[j]Agency reported program no longer susceptible to significant improper payments.

[k]Agency reported that the annual improper payment amount or error rate was zero.

Written Statement of the Honorable Charles R. Christopherson, Jr.

Chief Financial Officer

U.S. Department of Agriculture

Before the

Subcommittee on Federal Financial Management,

Government Information, Federal Services, and International Security

Committee on Homeland Security and Government Affairs

The U.S. Senate

January 31, 2008

Mr. Chairman, Ranking Member Coburn, and members of the Subcommittee, thank you for your invitation to appear before you today and provide the Subcommittee with the status of our progress at the United States Department of Agriculture (USDA) on the President's goal to eliminate improper payments and fulfill the requirements of the Improper Payments Information Act of 2002 (IPIA).

I am Charles Christopherson, Chief Financial Officer and Chief Information Officer at USDA. My role as Chief Financial Officer is to lead the Department's efforts in eliminating improper payments by coordinating policy, guidance, analysis, reporting, and process improvements. My responsibility is to ensure that all USDA programs or activities which are susceptible to significant improper payments are identified and monitored. The responsibility includes focusing the Department to quickly develop

strategies to implement corrective actions that mitigate inadequacies that cause the improper payments. USDA compliance with IPIA and the President's goal of eliminating improper payments is a top priority.

At USDA, we believe that eliminating improper payments is not only important but essential. The Department obligates about $100 billion of taxpayer's money annually through more than 300 programs worldwide. Many of USDA's programs operate through an extensive network of Federal, State, and local cooperators. We have a complex tapestry of systems, many that date back to the 1970s and 1980s. These old systems often require our employees to complete manual reviews of qualifying paperwork for USDA programs. It is essential to educate our employees and our cooperative partners of the importance of making accurate payments to the correct recipients that are in compliance with program requirements and supported by appropriate documentation. Our goal is to instill this philosophy throughout the management, program, and administrative phases of the USDA work culture.

While we still face many challenges to eliminate improper payments, USDA has made progress in identifying programs susceptible to significant improper payments, measuring the amounts of improper payments and developing corrective actions to reduce improper payments. In FY 2006, we increased the number of programs measured and clarified the measurement and reporting criteria of audits. In addition, we integrated the testing of internal controls to prevent errors in qualifying paperwork and disbursements with our assessment of system of internal control under Office of Management and Budget

Circular A-123, Management's Responsibility for Internal Control Appendix A, Internal Control Over Financial Reporting. This ensures that we focus on collaborating across programmatic, financial, and other disciplines to evaluate our processes and holistically implement corrective actions.

In FY 2007, USDA achieved a major milestone. For the first time, we measured all of our programs that have a significant risk for improper payments. In summary, this includes 16 programs with total outlays of over $72 billion. USDA's measurement of these programs estimated that the Department's FY 2007 improper payments totaled $4.4 billion, which represents an error rate of 6.1 percent. This is a decrease from FY 2006 improper payments of $4.6 billion, which represents an error rate of 7.0 percent.

I believe it is important to note that this reduction occurred even though two additional nutrition assistance programs were measured and reported for the first time in FY 2007. The USDA agency providing the greatest contribution to the FY 2007 decrease in improper payments was the Farm Service Agency (FSA). FSA's seven high risk programs showed significant improvement in FY 2007. FSA's FY 2007 estimated improper payments for all seven programs totaled $563 million, which represents an error rate of 2.5 percent. This is a decrease from the FY 2006 estimated improper payments totaling $2.9 billion, which represents an error rate of 11.2 percent.

FSA's progress is mostly attributable to addressing administrative process weaknesses that prevented FSA from determining if payments were proper in FY 2006. FSA

developed and implemented aggressive corrective action plans to improve the quality of documentation for program eligibility. Administrative checklists for each of the high risk program were provided to county offices to follow in processing applications. These checklists help ensure that all steps are followed during the processing of applications. Program requirements are being reviewed to ensure that they are effective and streamlined. Current and future corrective actions emphasize greater focus on education and providing modern systems to ensure all requirements are met before payments are issued. USDA has developed a plan to modernize the FSA program systems and is working with OMB to identify funding alternatives and strategies.

In FY 2007 USDA's Food and Nutrition Service (FNS) measured the National School Lunch Program (NSLP) and School Breakfast Program (SBP). The estimated amount of improper payments including under and overpayments for the NSLP were $1.4 billion, which represents an error rate of 16.3 percent. The estimated amount of improper payments including under and overpayments for SBP were $520 million, which represents an error rate of 24.9 percent. On an average school day, nearly 30 million children receive a program lunch and about 10 million children receive a program breakfast. Many of the improper payments stem from errors in the certification of eligibility by local school officials or meal service counts executed by local school food service personnel. Of the NSLP's error rate of 16.3 percent, 9.4 percent is attributable to certification error and 6.9 percent is attributable to counting/claiming error. Of the SBP's error rate of 24.9 percent error rate, 9.1 percent is attributable to certification error and 15.8 percent is attributable to counting/claiming error.

FNS has worked closely with OMB, Congress, the States, schools and advocacy partners for two decades to gain a better understanding of improper payments in the food assistance programs and to find ways to reduce them. The Child Nutrition and Women, Infants and Children Reauthorization Act of 2004 (CNR) enacted legislation to strengthen the certification process. Examples are requiring direct certification from food stamps or other nutrition programs; simplifying the certification process; requiring entire school year eligibility determinations; modifying, expanding and targeting verification requirements; and requiring additional State administrative review of school districts with higher error rates. FNS works closely with the states and is continuing efforts to meet all provision of the CNR.

While additional oversight corrects many errors, FNS is dedicated to being a proactive partner in assisting the schools and states through the corrective process. FNS has developed and requires annual training for schools on certification and accountability issues. FNS' Federal employees provide technical assistance to States and schools to help reduce administrative errors, improve program integrity, improve compliance program nutrition and menu planning standards, and increase accuracy of meal counts. Through this same type of proactive partnership, FNS has seen improvement in the Food Stamp Program error rate. The estimated improper payments for Food Stamps reported in FY 2007 including both under and overpayments totaled $1,794 million, which represents an error rate of 5.99 percent. This figure marks the third straight year the accuracy rate of the total program has been greater than 94 percent. This improved

performance reflects effective partnerships with State administering agencies. Twenty-five States have a payment accuracy rate greater than 94 percent.

Although the Food Stamp Program and other domestic nutrition assistance programs have made progress in reducing improper payments, there will continue to be challenges in the future. In light of the need to make these programs easily accessible to people in special circumstances and settings, some improper payment risks are inherent due to the program design. USDA will continue to shape its management approach in light of the need to make services convenient and accessible to participants while meeting legislative requirements. State Governments and schools also bear direct responsibility for properly delivering these programs. I know that these State and school employees are highly dedicated to the families and children that they assist. We appreciate their dedication and hard work as they manage the proper distribution of taxpayer's funds. The Department must work with them to address improper payment problems through monitoring and technical assistance. The President's FY 2009 Budget for FNS requests additional funding for FNS to improve the measurement of improper payments made by the Child and Adult Care Food Program (CACFP). This effort will allow FNS to more accurately determine the error rate and to remediate root causes of improper payments.

At times, USDA agencies must work together to reduce improper payments. Natural Resources Conservation Service (NRCS), FSA, Rural Development, and Agricultural Marketing Service staffs meet monthly to discuss and resolve overlapping issues. Improving interagency communication and program integration has reduced improper

payments related to conservation easements and farm subsidies.

Over the past three years, NRCS has made progress in reducing improper payments. The improper payments error rate for the farm security programs they measured decreased from 1.55% in FY 2005 to 0.47% in FY 2007. Documentation, program compliance and human errors continue to be sources of improper payments. NRCS continues to develop and implement corrective actions to prevent errors and reduce improper payments. These actions include additional software control edits, stronger quality assurance testing, training of field staff, and other program internal controls.

As the results discussed previously indicate, USDA has made progress towards the goal of measuring and eliminating improper payments. The Office of the Chief Financial Officer has developed policy and issued detailed guidance for the risk assessment process. The risk assessment process requires: a description of the program, including purpose and basic eligibility requirements; definition of improper payments specific to the program; program vulnerabilities linked to improper payments; internal controls designed to offset the program vulnerabilities; internal controls testing; listing of significant reviews and audits; and final determination of risk level. During the risk assessment process transactions are statistically sampled to verify that the risk assessments are accurate.

We also continue to improve our processes and system. As an example the Department is currently in the midst of implementing a paperless invoice tracking and processing

system that will improve accuracy and efficiency thus reducing the risk of making improper payments. Prompt pay interest should be dramatically reduced when this system is implemented in FY 2008/2009.

Under the PMA initiative for eliminating improper payments, USDA has scored "Yellow" for status and "Green" for progress on the December 31, 2007 OMB scorecard. The Department's overall goal is to achieve "Green" for status in FY 2008 and to maintain "Green" for status in FY 2009. We continue to take steps in recovery auditing. Using independent recovery audit contractors working on contingency, approximately 71% of the potentially recoverable improper payments in FY 2007 were recovered.

In closing, I would like to thank the subcommittee for the opportunity to share the status and progress of USDA on the important subject of eliminating improper payments. I would welcome any questions.

TESTIMONY

Of

Anthony J. Dale

Managing Director
Federal Communications Commission

Before the

Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security
Committee on Homeland Security and Government Affairs
United States Senate

On

Eliminating Agency Payment Errors

January 31, 2008

Good afternoon, Mr. Chairman, Dr. Coburn, and distinguished members of the Subcommittee. Thank you for the opportunity to appear before you to speak about the Improper Payments Information Act of 2002 and the activities of the Federal Communications Commission in this area.

In November 2007, the Commission reported for the first time an estimate of potential improper payments affecting one of our programs, the Universal Service Fund. The Commission has taken numerous steps to assess, measure, and address potential improper payments. I will provide a summary of the steps below.

The Universal Service Fund helps ensure access to telecommunications services for consumers in high cost and rural areas, and promotes access to advanced services for schools, libraries, and health care service providers in rural areas. It consists of four programs: the High Cost Program, which disbursed approximately $4.2 billion in Fiscal Year 2007; the Schools and Libraries Program (also known as the E-rate Program), which is capped at $2.25 billion under the Commission's rules; the Low Income Program, which disbursed approximately $830 million in Fiscal Year 2007; and the Rural Health Care Program, which is capped at $400 million under the Commission's rules, but has historically operated far below that annual cap. The program is funded through contributions from providers of interstate and international telecommunications services.

The Universal Service Fund is administered by a non-profit corporation, the Universal Service Administrative Company. The Administrator receives and reviews applications for benefits, disburses funds to beneficiaries, and collects funds from service providers. The Administrator also performs certain oversight functions under the direction of the Commission's Inspector General, such as audits and investigations of program participants.

In March 2004, the Commission submitted its Improper Payments Information Act report to Congress concerning potential improper payments in the programs under its purview. At that time, the Commission performed a risk assessment and concluded that two of the Universal Service Fund programs – that is, the High Cost Program and the Schools and Libraries Program – were at risk for potential improper payments because of the activities of program participants. In order to estimate potential improper payments, the Commission relied on the expert audit oversight conducted by the Commission's Inspector General.

In August 2006, the Inspector General initiated a statistically-valid sample of audits of USF beneficiaries and contributors in order to identify potential improper payments, to determine whether beneficiaries and contributors complied with the Commission's rules, to detect and deter potential waste, fraud and abuse, and to identify areas for improvement in the program. The Inspector General oversaw the completion of 65 audits of High Cost Program beneficiaries, 155 audits of E-rate Program beneficiaries, 60 audits of Low Income Program beneficiaries, 89 audits of Rural Health Care Program beneficiaries, and 90 audits of contributors, for a total of 459 audits. Through his audit sampling oversight efforts, the Inspector General directly audited more than $825 million in disbursements from the Universal Service Fund for the Fiscal Year 2005 period, and more than $450 million in contributions to the Universal Service Fund for the calendar year 2005 period. This was the largest, most comprehensive examination of Universal Service Fund beneficiaries and contributors that has been completed to date.

On October 3, 2007, the Inspector General released his initial analysis of these audits. The Inspector General concluded that, "[i]n general, the audits indicated compliance with the Commission's rules, although erroneous payment rates exceeded 9%" in most USF programs.

The specific erroneous payment rates the Inspector General found by program were: the High Cost Program, 16.6%; the Schools and Libraries Program, 12.9%, the Low Income Program, 9.5%; the Rural Health Care Program, 20.6%; and Contributors' payments, 5.5%. Based on these initial audit results, the Inspector General reported that improper payments to USF beneficiaries could be more than $900 million and incorrect payments from USF contributors could be more than $350 million.

The Inspector General has informed us that he plans to significantly expand the audit program going-forward in order to provide a more precise estimate of the error rate. We understand that the Inspector General's audits are currently underway and should be completed later this year. We expect that these upcoming audit results would be used to determine the baseline of potential improper payments in the program.

The Inspector General's audit results identified several causes for improper payments in the USF. In particular, the Inspector General identified inadequate document retention, inadequate policies, inadequate accounting systems, and weak internal controls as the cause for many improper payments for USF beneficiaries. The Inspector General also identified a lack of compliance with some Commission rules as an underlying cause of improper payments. Finally, the Inspector General found problems with the application review process, incorrect interpretations of the program rules or administrative requirements, data entry errors, and inadequate supervision of consultants as causes for improper payments in the program.

We are concerned about the error rates the Inspector General identified. Our primary goal is to safeguard the Universal Service Fund so as to ensure the program operates as Congress intended. In this regard, we have already taken a number of steps to address the problems identified by the Inspector General. First, we are working to recover any improperly disbursed

funds. After the Inspector General released his initial analysis of the audit results, we instructed the Administrator to start recovering funds, and this process is currently underway.

Second, in August 2007, the Commission adopted rules that address many of the problems the Inspector General identified. The Commission's new rules establish tighter document retention requirements for program participants, provide for a uniform standard for recovering improperly disbursed funds, use performance measurements to better manage the Administrator, and provide stricter penalties for contributors who fail to make timely payments. The Commission's new rules also create additional penalties for bad actors – specifically, the Commission can now debar any party that defrauds any of the programs from continued participation in the program. The Commission has already used its debarment authority to ban ten corporations and individuals from continued participation in the program.

Third, in October 2007, we directed the Administrator to carefully review the Inspector General's audit results and recommend additional steps the Administrator should take to prevent or reduce potential improper payments. We also directed the Administrator to identify any additional resources that may be needed to further safeguard the Fund. The Administrator submitted its report on December 31, 2007 and a subsequent report on January 18, 2008. We are currently reviewing these reports to determine what additional actions may be required.

Fourth, the Commission tightened oversight of the Administrator's processes and procedures. Specifically, we established a Memorandum of Understanding with the Administrator to ensure the Administrator performs its functions in an efficient, effective manner.

Fifth, program participants that violated the Commission's rules could be subjected to potential enforcement action.

Finally, we sought and recently received additional funding for the Inspector General to enhance oversight of the Universal Service Fund. For the Commission's Fiscal Year 2008 appropriation, we requested a total of $21.48 million for the Inspector General to perform audits directly, to provide investigational support, and to obtain contractual services needed to prevent and remedy waste, fraud, and abuse. We recently received authorization for this funding level, and the Inspector General is ramping up his oversight activities accordingly.

Thank you for this opportunity to report on the Commission's efforts in this area. I will be happy to answer any questions you may have.

Statement by

Charles E. Johnson

Assistant Secretary for Resources and Technology and

Chief Financial Officer

U.S. Department of Health and Human Services

on

HHS Improper Payment Initiatives

before the

Subcommittee on Federal Financial Management, Government Information, and International Security

Committee on Homeland Security and Government Affairs

United States Senate

Thursday, January 31, 2008

Good afternoon Mr. Chairman and distinguished Members of the Subcommittee. Thank you for inviting me to appear before you today. It is a pleasure for me to have the opportunity to testify about the U.S. Department of Health and Human Services (HHS or the Department) improper payment initiatives.

The Department is firmly committed to ensuring the highest measures of financial accountability to the American people. With the size and scope of HHS programs, we know that it is critical to prioritize, and be aggressive in our activities to identify and take action to reduce improper payments. Over the past several years, we have had many

successes and accomplishments in this area. I am pleased to share some of these with you today as well as some of the challenges we face.

As required under the Improper Payments Information Act of 2002 (IPIA) (P.L. 107-300) and related guidance issued by the Office of Management and Budget (OMB), the Department has methodologies to estimate improper payments for its seven high-risk programs: Medicare, Medicaid, State Children's Health Insurance Program (SCHIP), Temporary Assistance for Needy Families (TANF), Foster Care, Head Start and Child Care. These seven programs account for close to 90 percent of HHS' $708 billion total estimated FY 2008 outlays. In terms of both size and potential for growth, the risk and impact of improper payments is greatest for the two HHS programs that account for more than 85 percent of these total outlays - Medicare and Medicaid. Our improper payment activities have helped focus our efforts to strengthen HHS' stewardship over taxpayer dollars.

IPIA Compliance

HHS is expected to report an error rate for all seven of its high-risk programs in its FY 2008 Performance and Accountability Report (PAR), thereby fully complying with the IPIA. In addition, HHS has been very successful in continuously reducing its error rates over the past few years for the many programs we have been measuring. We began reporting on improper payments in FY 2004 for three of our seven high-risk programs, Medicare fee-for-service (FFS), Foster Care, and Head Start. In FY 2004, those rates

were 10.1 percent; 10.33 percent; and 3.9 percent, respectively. As a result of our corrective action efforts, those rates have declined dramatically. In the FY 2007 PAR, we reported a Medicare FFS rate of 3.9 percent; a Foster Care rate of 3.3 percent; and a Head Start rate of 1.3 percent. (See Exhibit 1.)

In addition to steadily reducing error rates for Medicare FFS, Foster Care, and Head Start, HHS has made tremendous progress in developing measurement methodologies for its other high-risk programs, Medicaid, SCHIP, TANF, and Child Care. In FY 2007, HHS reported, for the first time, a preliminary error rate for Medicaid and reported on the results of pilot projects for TANF and Child Care. In the FY 2008 PAR, error rates will be reported for each of these high-risk programs.

Medicare

Medicare is HHS' largest program, accounting for almost 60 percent of HHS' FY 2008 outlays. Medicare is the Federal health insurance program administered by the Department's Centers for Medicare & Medicaid Services (CMS) that provides medical insurance to roughly 44 million people. Approximately 75 percent of Medicare spending in FY 2008 will be for fee-for-service (FFS) hospital and physician services. The FFS component of Medicare covers a wide range of other items and services, including home health care, ambulance services, medical equipment, and preventive services. The CMS administers the Medicare FFS claims processing and payment systems through contracts with Carriers, Durable Medical Equipment Medicare Administrative Contractors

(formerly called Durable Medical Equipment Regional Carriers (DMERCs)), Medicare Administrative Contractors (MACs), Fiscal Intermediaries (FI), and Quality Improvement Organizations (QIOs). These entities review claims submitted by providers to ensure payments are made only for medically necessary services covered by Medicare for eligible individuals. HHS estimates that the contractors processed over one billion claims last year from providers, physicians, and suppliers for items and services that Medicare covers.

In 1996, HHS' Office of the Inspector General (OIG) began estimating improper payments in the Medicare FFS program as part of the financial statement audit required by the Chief Financial Officer's Act of 1990 (P.L. 101-576). The OIG produced FFS error rates from FY 1996 through 2002. Beginning in FY 2003, CMS, working with the OIG, implemented a more robust process - the Comprehensive Error Rate Testing (CERT) program - to assess and measure improper payments for approximately 60 percent of the dollars covered by the Medicare FFS program. The CERT program not only produces a national paid claims error rate but also provides very specific improper payment rates, including contractor-specific improper payment rates that measure the accuracy of our claims processors; provider-type specific improper payment rates that measure how well the providers who care for our beneficiaries are preparing and submitting claims to the Program; and other management related information that provides insight into payment errors by region and reason. The Medicare FFS improper payment estimate is derived from two programs: the CERT Program, representing approximately 60 percent of the Medicare FFS dollars and Hospital Payment Monitoring Program (HPMP), representing

approximately 40 percent of the Medicare FFS dollars. The Medicare FFS measurement programs have provided HHS with powerful tools to identify problems in claims processing and address these problems through specific corrective action plans.

In FY 2007, HHS reported a Medicare FFS paid claims error rate of 3.9 percent, which is a full half-point reduction from the 4.4 percent rate reported in FY 2006. Further, this 3.9 percent rate is less than half of the 10.1 percent rate measured and reported just three years ago. (See Exhibit 2.) The significant drop in this rate is primarily attributable to the aggressive measures that were taken by the Department to ensure that the necessary documentation was submitted by the providers to support the payments made.

While CERT and HPMP have been useful for guiding our efforts in the Medicare FFS program, they do not provide a measure for payments in Medicare Advantage or the Medicare Prescription Drug Benefit Program (also referred to as Medicare Part C and Medicare Part D, respectively). These programs added by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) (P.L. 108-173) represent about 32 percent of the Medicare benefit gross outlays for FY 2008. In FY 2007, the Department measured a component rate for Medicare Advantage and the Medicare Prescription Drug Benefit programs. In FY 2007, the Department measured a component rate for Medicare Advantage and the Medicare Prescription Drug Benefit programs. Each of these programs reported less than a one percent component rate. HHS anticipates expanding its payment error rate reporting for Medicare Advantage and the Medicare Prescription Drug programs in the FY 2008 PAR.

Medicaid and SCHIP

The Department's second largest program, Medicaid, accounts for over 25 percent of Department outlays. Unlike Medicare, this program is administered primarily by State Governments. While the Federal Government provides matching payments to the States, each State is responsible for overseeing its Medicaid program. Each State essentially designs and runs its own program within Federal guidelines. The Federal Government pays the States a portion of their costs through a statutorily determined matching rate called the Federal Medical Assistance Percentage, or FMAP, that currently ranges between 50 and 76 percent.

In FY 2000, HHS adopted a Government Performance and Results Act (GPRA) goal to explore the feasibility of developing a methodology to estimate improper payments in the Medicaid program. Beginning in 2001, HHS formally solicited States to participate in the development of a model to estimate payment accuracy. Only three States, Illinois, Texas, and Kansas, had attempted to estimate payment error in their respective State Medicaid programs prior to HHS initiating the pilot project.

From FY 2002 through 2005, HHS conducted the Payment Accuracy Measurement (PAM) and Payment Error Rate Measurement (PERM) pilot projects with extensive collaboration from participating States to determine a systematic means of measuring payment errors at the State and national levels. From these pilot projects, HHS was able

to develop a methodology to estimate a State-specific payment error rate that would be the model for the national Medicaid and SCHIP error rate methodologies.

In FY 2007, HHS measured a national Medicaid FFS error rate for FY 2006 claims in 17 States based on medical reviews and data processing reviews. Although limited in scope, HHS was able to report a 6 month preliminary error rate, based on 6 months of data from each of the 17 participating-States. The preliminary error rate was 18.45 percent. It is important to note that approximately 80 percent of this error rate is attributable to providers not submitting adequate documentation, a problem similar to what we experienced in the early years of the Medicare program. (See Exhibit 3.) We hope to see a reduction in this rate. This preliminary error rate does not reflect the late implementation of some new policies in the measurement cycle, particularly with respect to HHS' increased efforts to obtain documentation. These factors should be considered when reviewing the preliminary rate and the results of these new policies may impact the final calculation of the annual error rate. HHS is in the process of completing the error rate measurement for the FY 2006 claims and will report the full-year Medicaid fee-for-service error rate in the FY 2008 PAR.

In addition, HHS expects to report a comprehensive error rate for both the Medicaid and the SCHIP programs based on FY 2007 data. The comprehensive measurement will include measuring the FFS, managed care, and eligibility components for both the Medicaid program and SCHIP.

TANF

The TANF program provides an annual block grant to States, Territories and eligible Tribal programs to help families transition from welfare to self-sufficiency. Due to the statutory limitations with regard to the TANF information that HHS can request of States, HHS has faced many challenges in the development of a TANF error rate methodology. After pilot testing two different methodologies, I am pleased to report that HHS has identified a viable approach to measuring the TANF error rate.

HHS has been working to develop an approach to measure the error rate in the TANF program since the inception of IPIA. Between FY 2002 and 2005, we conducted a pilot project with four States. This project focused on obtaining an improper payment estimate using the existing OMB Circular A-133 audit process. The A-133 audit process is used to audit States, local government, tribes, non-profits, and colleges and universities that receive federal funds. The auditors reported error rates that ranged from 2.3 percent to 24.6 percent. Due to a number of factors, including the lack of standardization and varying audit approaches, the Department concluded that this method did not yield a viable means to producing a TANF error rate.

In FY 2007, HHS' OIG conducted a pilot review of TANF cash assistance payments in three states. The OIG tested cash assistance payments, in accordance with Federal rules and with the States' own policies, to ensure that eligible families were receiving the TANF benefits and that the benefits were calculated properly. The error rates for the

pilots ranged from 11.5 percent to 40 percent. A portion of the errors in each pilot is attributable to documentation errors. While HHS lacks the legislative authority to require States to develop or implement corrective action plans, HHS will develop a corrective action plan that States will be requested to implement. HHS believes this standard approach, based on a State's own standards and conducted by the same independent party in all States is a viable approach to meeting the requirements of the IPIA. As a result, HHS will continue to employ this methodology and expects to report an estimate of the national TANF error rate in the FY 2008 PAR, which will be finalized and reported in the FY 2009 PAR. Congressional support for the Department's funding requests to carry out IPIA activities in the TANF program is critical to the sustainability of this initiative.

Head Start

The Head Start Program provides grants to local public, for profit and non-profit agencies to provide comprehensive child development services to children and families, primarily preschoolers from low-income families. In the period covered by this testimony, Head Start regulations allowed Head Start programs to serve up to 10 percent of their enrolled children (up to 49 percent in certain situations for tribal Head Start programs) from families who do not meet Head Start income requirements. Under Head Start legislation, grantees are required to be monitored at least once every three years. In FY 2004, HHS developed a methodology for estimating a national Head Start payment error rate building on the required review process. In the FY 2007 PAR, Head Start reported an

error rate of 1.3 percent, which is one-third of the 3.9 percent error rate reported in FY 2004.

Foster Care

The Foster Care Program is designed to help States provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering State agency and who need temporary placement and care outside their homes. Child and Family Services Reviews (CFSRs) are conducted in each State at least once every three years by teams who review cases selected from the State's Title IV-E foster care population. These reviews are intended to recover Title IV-E funds claimed by States for ineligible cases and, in conjunction with the required program improvement plan (PIP) for those States determined to be non-compliant, to help change their behavior so that subsequent reviews will result in lower error rates.

HHS developed a methodology for estimating a national payment error rate for the Title IV-E Foster Care Program using data gathered in the eligibility reviews. In FY 2007, Foster Care also began systemically measuring underpayments as well as overpayments, as required by OMB Circular A-123, Appendix C. The absolute value of the overpayments added to the underpayments was used in the improper payment calculation. For 2007, Foster Care reported an error rate of 3.3 percent, significantly down from the 10.33 percent first reported in FY 2004.

HHS is also in the process of developing a measurement methodology to measure Foster Care administrative cost payment errors. Congressional support of the Department's funding request to implement this methodology is critical to its success.

Child Care

The Child Care and Development Fund (CCDF) is a block grant composed of three distinct funding elements (mandatory, discretionary and matching) authorized in two different statutes. In FY 2007, the Child Care program completed pilot projects measuring improper payments based on state eligibility criteria. The payment error rates for these pilots ranged from 2 percent to 18 percent.

Also, in FY 2007, HHS issued a final regulation requiring States to measure improper payments in the CCDF program, based on eligibility, once every three years. As a result, in the FY 2008 PAR, HHS expects to report a national CCDF error rate.

HHS Prevention and Recovery Efforts

The Department's efforts to safeguard Federal funds are not limited to the error measurement initiatives described in this testimony. HHS' fiscal integrity program provides for a multi-faceted approach to assessing the extent of improper payments through the error measurement process, analyzing the cause of improper payments, strengthening internal controls to prevent improper payments from occurring, and

identifying and recovering improper payments when they occur. These initiatives help strengthen program integrity as well as protect taxpayer dollars. We believe that a few of these initiatives warrant the Committee's attention.

Data Matching Programs

Data matching has proven to be an effective tool for verifying eligibility and preventing improper payments. We would like to highlight two of HHS' successful data matching programs that benefit HHS programs as well as programs administered by other federal agencies.

Public Assistance Reporting Information System (PARIS)

PARIS is a voluntary data matching system facilitated by HHS that enables participating States' public assistance data to be matched against several databases to maintain program integrity and detect and deter improper payments in several programs (TANF, Medicaid, and the U.S. Department of Agriculture's Food Stamp program) by validating client-reported information and identifying potential improper payments. Currently 44 jurisdictions participate in the PARIS project. PARIS includes a number of matches that the States can utilize.

Every quarter, PARIS member States voluntarily choose whether, and in which match to participate (at no charge to them). The more States that join and conduct matches under PARIS, the wider the net of potential matches of information

becomes available to PARIS member States to validate public assistance program client-reported information and identify potential improper payments.

During the period April 2003 through March 2007, New York State closed or removed from active public assistance 26,047 individuals identified by the PARIS match. The cost savings for these individuals was in excess of $192 million dollars. Pennsylvania is also another PARIS success story. Pennsylvania has participated in the PARIS matches for the past 7 years. As of February 2007, Pennsylvania has closed 13,348 public assistance cases resulting in cost savings in excess of $73 million dollars. The PARIS savings cited in this section are self-reported estimates by the States.

National Directory of New Hires (NDNH)

HHS is continuing to expand State access to the National Directory of New Hires (NDNH). The NDNH offers solutions to the prevalent under-detection by States and reporting of employment of TANF recipients. The NDNH was authorized under the welfare reform legislation to provide a national database of employment information for the purpose of collecting child support payments. HHS completed a demonstration project to enable State TANF agencies to match their TANF caseloads against the database. This effort began with a pilot effort in the District of Columbia (DC). In 2005, 30 States, DC and Puerto Rico conducted matches. During FY 2006, 34 States conducted matches and during FY 2007 29 States conducted matches. HHS will continue working with the States. Together, these States and Territories account for 82 percent of the TANF caseload.

Recovery Actions

The following paragraphs describe key activities used by HHS to deter, identify and recover improper payments used in connection with our largest program, Medicare.

Recovery Auditing Contracting (RAC)

In addition to measuring error rates, HHS is also conducting a project to recover erroneous payments from Medicare providers. Beginning in 2005, HHS engaged in a Demonstration Project for Improving Program Integrity in Medicare. Under section 306 of the Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA), HHS was given the authority to conduct a demonstration project to demonstrate the use of Recovery Audit Contractors (RACs) in identifying underpayments and overpayments and recouping overpayments under the Medicare fee-for-service program.

HHS initiated this 3-year demonstration in the three states with the highest Medicare utilization rates. HHS provided the recovery audit contractors with over $239 billion worth of claims submitted between FY 2002 and FY 2007 that are potentially subject to review. The RACs perform data analysis on the claims data to identify potential improper payments. For the claims the RACs believe may have been paid improperly they request the medical documentation from the provider and perform a medical review to determine whether the claim was paid correctly. From the inception of the RAC program through September 30, 2007, HHS has collected $432 million in payments determined to be improper.

Although the RAC demonstration was scheduled to end in March 2008, Section 302 of the Tax Relief and Health Care Act of 2006 makes the RAC program permanent and requires the Secretary to expand the program to all 50 states no later than 2010. HHS has already begun expanding the RAC program and as of September 2007, the RAC demonstration has expanded into 2 additional states (Massachusetts and South Carolina).

Fraud, Waste and Abuse

HHS' efforts to combat fraud, waste and abuse through the Medicare and Health Care Fraud and Abuse Control (HCFAC) Programs have a proven record of returning money to the Trust Fund for each dollar spent. The return on investment (ROI) for the Medicare integrity program (MIP) is 13:1. From 1997 to 2007, these activities have returned over $10 billion to the Trust Fund.

HHS employs "Payment Safeguard Contractors" (PSCs) in the Medicare fee-for-service program to identify potential problem areas, investigate potential fraud, and develop fraud cases for referral to law enforcement. In addition, HHS has regional Satellite offices in Miami, Florida; Los Angeles, California; and New York City, New York, where fraud and abuse is more prevalent. The Satellite offices are focused on investigating allegations of fraud and abuse in their specific geographical areas. Due to HHS' targeted efforts in these areas, HHS has recovered $1.8 billion in improper payments from FY 2004 through mid-FY 2007.

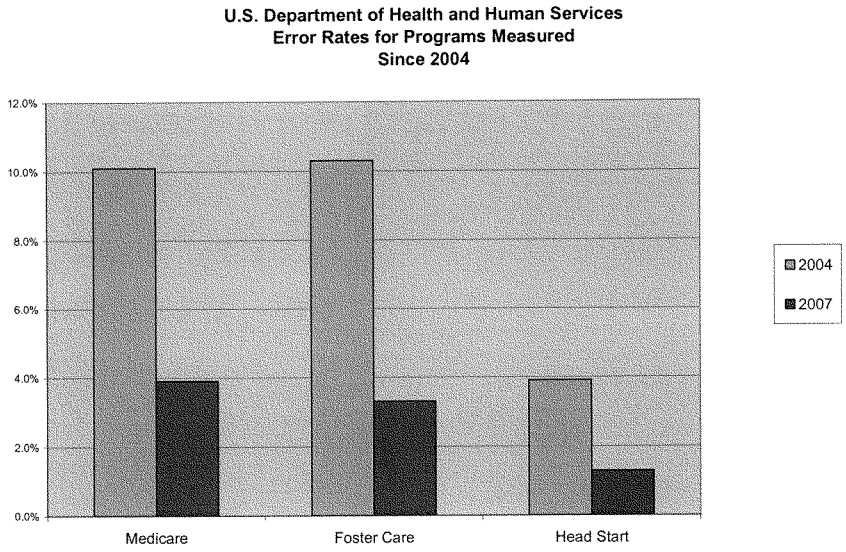
Recoveries from IPIA Error Measurement

HHS has mechanisms in place to recover the overpayments identified in the Medicare FFS error rate measurement sample. Since FY 2004, the Medicare FFS measurement process collected almost 90 percent of the actual overpayments identified in the Medicare FFS measurement process.

Conclusion

In conclusion, HHS has had numerous accomplishments and successes in its improper payment activities. In our three programs that have produced comprehensive rates since FY 2004, we are seeing positive results from our corrective actions and the rates have dropped significantly as a result.

Exhibit 1


U.S. Department of Health and Human Services
Error Rates for Programs Measured
Since 2004
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
Medicare
Foster Care
Head Start
2004
2007

Medicare FFS Rate Reduction by Category

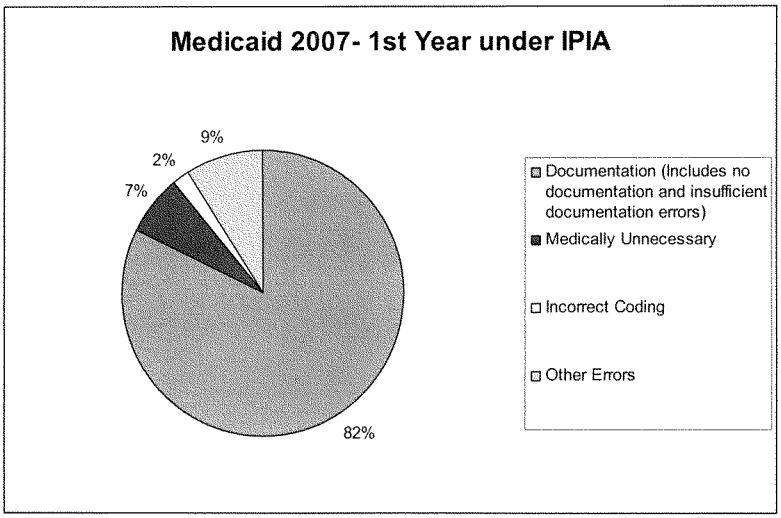
Exhibit 2

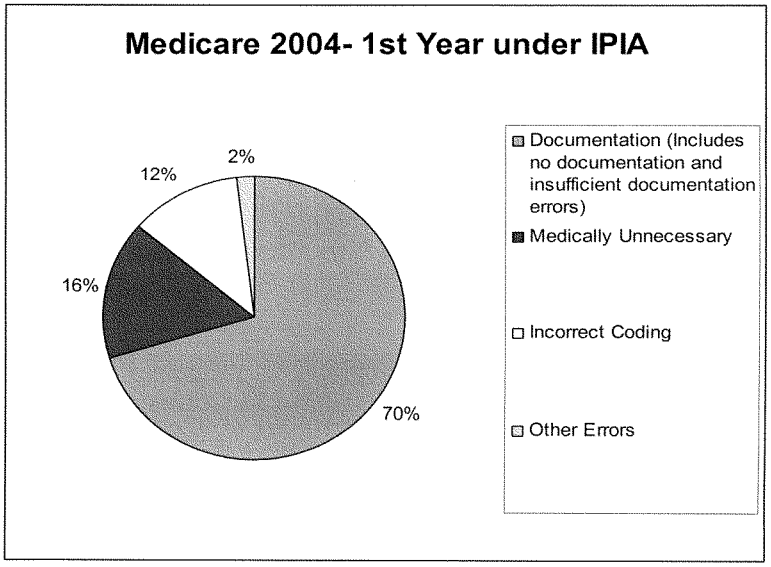
	2004	2007	Percent Change
Overall Rate	10.1	3.9	(61.4%)
No documentation	3.1	0.6	(80.6%)
Insufficient Documentation	4.1	0.4	(90.2%)
Coding Errors	1.2	1.5	25.0%
Medically Unnecessary	1.6	1.3	(18.8%)
Other	0.2	0.2	0.0%

Columns do not sum correctly due to rounding.

Comparison of Error Categories
First Year Reporting under IPIA
Medicaid 2007 vs. Medicare 2004

Exhibit 3





Statement of
David A. Rust
Acting Deputy Commissioner for Disability and Income Security Programs

Testimony before the
Senate Committee on Homeland Security and Governmental Affairs
Subcommittee on Federal Financial Management, Government Information, and International Security

January 31, 2008

Introduction

Mr. Chairman and Members of the Subcommittee, thank you for inviting me here today to discuss the efforts that the Social Security Administration (SSA) is undertaking to strengthen and maintain the integrity of the Social Security (Old Age and Survivors Insurance, or OASI, and Disability Insurance, or DI) and Supplemental Security Income (SSI) programs, and to prevent, detect, and collect improper payments. This issue is critically important to the SSA and is essential to ensure public confidence in our programs. To that end, I will describe the scope and magnitude of our Agency's activities.

Administration of Social Security Programs

SSA promotes the nation's economic security by administering America's major income support programs for the elderly, disabled, and their dependents and survivors through the Social Security and SSI programs. These programs touch the lives of nearly 55 million people and improve the economic well-being of the nation.

The Social Security program provides a comprehensive package of protection against loss of earnings due to retirement, disability, and death. Social Security benefits are financed through payroll taxes paid by workers, their employers, and self employed individuals. SSI is a program funded by general revenues and is designed to provide assistance to aged, blind and disabled individuals with limited means to provide for themselves.

In 2007, SSA paid over $576 billion to nearly 50 million individuals in Social Security benefits, and nearly $40 billion to 7.3 million individuals in SSI payments. Our beneficiary rolls continue to grow. Over the ten-year period beginning January 1998 through the end of December 2007, the number of OASI beneficiaries has increased from 37.8 million to 40.9 million, DI beneficiaries grew from 6.1 million to 8.9 million, and SSI recipients from 6.5 million to 7.3 million.

However, it is important to note that while SSA is working more efficiently, higher productivity and improved processes have not always been sufficient to keep pace with increasing workloads. Since FY 2001, Congress has appropriated on average $150 million less each year than the President requested. The FY 2008 enacted level was the first time this decade that the Congress provided funding above the President's request.

With this additional funding, we will focus our efforts on reducing disability backlogs, by implementing the Hearings Backlog Reduction Plan. This plan includes automation improvements, ALJ hiring, and other initiatives that will enable us to significantly increase the number of hearings processed in FY 2009. In addition, we will be able to expedite the processing of initial disability claims allowing us to begin reducing this backlog.

We will be able to increase our program integrity efforts somewhat in FY 2008. We expect to process an additional 27,000 medical Continuing Disability Reviews (CDRs), which are periodic reviews of medical eligibility for SSI and DI benefits and are estimated to yield $10 in lifetime program savings for every $1 spent. In addition, we expect to process an additional 161,000 SSI redeterminations, which are estimated to save approximately $7 in lifetime program savings for every $1 spent. SSI redeterminations are periodic reviews of non-medical SSI eligibility requirements.

Since the FY 2004 President's Budget, the President has proposed specific funding for SSA to conduct CDRs, with some of the proposals also including SSI redeterminations. However, these proposals have not been included in the bills passed by Congress.

The President's Budget for FY 2009 includes a proposal to provide SSA with funding, outside the spending caps, for program integrity activities such as CDRs and SSI redeterminations. The Budget includes a special funding mechanism that will provide $240 million for SSA's program integrity efforts, in addition to the $264 million already included in the base request, for a total of $504 million. SSA plans to process 329,000 medical CDRs and nearly 1.5 million SSI redeterminations in FY 2009. If found to be as cost-effective as SSI redeterminations, up to $40 million may be used for initiatives to improve the disability process and up to $34 million may be used to expand the Access to Financial Information project, which automates verification of SSI recipients' assets held in banks. In total, SSA estimates this program integrity funding in FY 2009 will result in over $4 billion in savings over 10 years.

Where We Are

SSA has a well-deserved reputation for providing sound, excellent financial management. We take our reputation, and the stewardship responsibility that comes with it, very seriously. SSA has established agency performance measures aimed at preventing and

detecting improper payments and collecting debt efficiently. These goals align directly with the President's Management Agenda (PMA) to eliminate improper payments. We work closely with OMB on this initiative.

In FY 2006 (the most recent data available), our payment accuracy for OASDI was 99.7 percent with respect to overpayments, and 99.9 percent with respect to underpayments. For SSI, the rate was 92.1 percent with respect to overpayments, and 97.8 percent with respect to underpayments. Even with this high level of performance, we believe we can do better. We are committed to improving our payment accuracy and reducing the volume and magnitude of improper payments we make.

As mentioned earlier, the most important tools we have to maintain and improve our program stewardship are CDRs and redeterminations. In FY 2007, we conducted over one million redeterminations and 208,000 medical CDRs. In FY 2008, we expect to conduct 1.2 million redeterminations and 235,000 medical CDRs.

We have had to reduce some of our stewardship activities in order to devote necessary resources to service delivery, and our payment accuracy has suffered as a result. In FY 2006, our SSI accuracy rate with respect to overpayments was 92.1 percent with an error rate of 7.9 percent which represented improper payments of $3.2 billion. This is a statistically significant difference from the FY 2005 error rate with respect to overpayments of 6.4% which represented $2.5 billion in improper payments. We directly attribute this increase in the error rate to the reduction in the number of redeterminations we conducted in FY 2006.

What We Are Doing with CDRs and Redeterminations

We plan to use some of the FY 2008 appropriation to conduct more CDRs and redeterminations than we did in FY 2007. The projected returns on investment for these workloads are substantial and thus contribute to the public's trust of the programs and help to keep benefits well targeted to those who most need them.

To illustrate the importance of CDRs and redeterminations, it may be helpful to describe more fully how and why we conduct them.

For an individual to be entitled to disability benefits under either the Social Security Disability Insurance or SSI program, a determination must be made that the person meets the definition of disability in the Social Security Act. Most of these determinations are made by State agencies known as Disability Determination Services, or DDSs. These determinations establish whether the individual is disabled and the date the disability began. After an individual has been on the program rolls for a period of time, the DDS is also involved in the determination of whether the individual's disability has ended or significantly improved.

Since the beginning of the disability program, Congress has required, under sections 221(i) and 1614(a) of the Social Security Act that SSA periodically review the cases of beneficiaries who receive benefits based on disability or blindness. When disability is established, each case is scheduled for a periodic continuing disability review. The frequency of review depends on the likelihood of medical improvement. In addition, if we receive information that a beneficiary may no longer be disabled, a CDR may be conducted earlier than scheduled.

SSA reports annually to Congress on the CDR workload. In the most recent report, SSA reported that it spent $360 million processing CDRs in FY 2006 for an estimated present value of lifetime program benefit savings of $3.8 billion, including Medicare and Medicaid savings, showing that CDRs continue to be a highly cost-effective program integrity tool. The report for FY 2007 will be published later this year.

SSI is a means-tested program that provides cash assistance to aged, blind, and disabled individuals with limited income and resources. Once individuals are found eligible for benefits, changes in their living arrangements or in the amount of their income or resources can have an effect on their benefit amount or eligibility status even if their medical condition has not changed. In order to assure that SSI payments are made in the correct amount and only to eligible individuals, SSA conducts redeterminations, which are periodic reviews of SSI non-medical eligibility factors. Redeterminations are a very effective tool to detect and prevent improper payments in the SSI program.

The purpose of a redetermination is to determine whether a recipient is still eligible for SSI and still receiving the correct payment amount. Redeterminations can be scheduled or unscheduled, and except for certain institutionalized individuals, all recipients are periodically scheduled for a review. The frequency and the intensity of these reviews depend on the probability that the case is being paid in error, which is based on a number of case characteristics.

While SSA selects for review the cases most likely to have a payment error, even the cases unlikely to have payment error are scheduled for review at less frequent intervals. Unscheduled redeterminations are completed on an as needed basis when recipients report, or we discover, certain changes in circumstances that could affect the continuing SSI payment amount or eligibility.

The number of redeterminations we complete varies from year-to-year based on available resources and workload requirements. In fact, fewer redeterminations were selected for processing in FY 2005 and 2006 than had been selected in previous years. In FY 2004, we processed over 2.2 million redeterminations, but in FY 2005 we only completed 1.7 million. In FY 2006 and FY 2007, we conducted just over 1 million redeterminations.

Other Program Integrity Initiatives

In addition to CDRs and redeterminations, we have other program integrity initiatives under way. For example, as mentioned earlier, the Access to Financial Information project automates access to financial institution data. Unreported bank accounts and account balances are one of the leading causes of SSI overpayments. To address this problem, SSA conducted a proof-of-concept (POC) through a competitive contract to test the feasibility of using a vendor to identify and verify bank accounts held by SSI applicants and recipients.

Initially, 20 SSA field offices (FOs) in the New York Region electronically transmitted financial account verification requests to financial institutions in their area and received responses over a secure Internet site. During this first phase of the POC, undisclosed accounts were discovered at recipients' financial institutions in 20 percent of the cases.

The next phase of the electronic verification project was expanded to include all 114 FOs in New York and New Jersey. In addition to requesting and receiving information from the individual's financial institutions, this phase of the POC involved sending requests to a number of financial institutions in an area around the individual's residence to determine if they had undisclosed accounts. Study results indicated that this process results in nearly $10 of detected overpayments for each $1 of the administrative cost.

In FY 2008, we are continuing the electronic verification process in the New York/New Jersey field offices and in SSA's Quality Performance offices nationwide to assist them in verifying SSI recipient resource levels. In addition we were able to expand this initiative to the State of California during November 2007.

Receipt of wages is another leading cause of SSI overpayments. SSA has tested the feasibility of implementing a monthly telephone wage reporting system for the SSI program. Generally, any time a person begins working, his or her SSI benefit is decreased. And any changes in the amount an individual earns in a month can either increase or decrease his or her SSI payment. About half of the wage-related overpayments are due to fluctuations in wages and most of the others are due to unreported wages.

SSA has conducted two pilots of an automated monthly telephone wage reporting process to determine its potential for reducing overpayments due to unreported changes in wages. The first pilot used a PIN/password authentication process that some recipients found difficult to navigate. The second pilot, which began on January 1, 2006, uses a knowledge-based authentication system based on personal identifying information. This second pilot uses both touch-tone and voice recognition telephone technology to collect the report which is then passed on to the SSI system.

Anytime an individual reports his or her wages, a receipt of the wage report is issued to the individual, as required by section 202 of the Social Security Protection Act enacted in 2004. Both SSI recipients and others in the household whose income is considered in determining an SSI payment report their earnings. SSA received permanent authorization for this system from OMB in September 2007. We are currently making systems enhancements to improve usability and expect expansion of this project in FY 2008.

Other activities aimed at reducing the number of improper payments involve the use of wage data from sources other than the individual. We use online queries to access the Office of Child Support Enforcement (OCSE) online wage and new hire files to help avoid and detect SSI wage overpayments. In addition, we are exploring the usefulness of a quarterly match with the new hires file to learn quickly about unreported work.

We also prevent and detect improper payments by obtaining beneficiary information from independent sources sooner and by using technology more effectively. SSA has data matches with nearly 20 Federal data sources. These include matches with the Internal Revenue Service, Department of Labor, Office of Personnel Management, the Department of Veterans Affairs, and law enforcement agencies. These matches are very effective. For example, the match with the Department of Veterans Affairs helps us identify the correct amount of VA pension or compensation SSI beneficiaries receive. In FY 2006, this match resulted in detecting and preventing over $12 million in incorrect SSI payments. The return on investment for this was 50 to 1. Our match with Federal prisons yields a similar return on investment ratio.

We also obtain information from the States. We have developed and are using Electronic Death Registration (EDR) information to prevent improper payments after an individual's death. EDR automates the transfer of death certificate information from State records to SSA electronically using the Internet, so SSA receives the death notice from the States quickly for OASDI and SSI beneficiaries. As of January 2008, 20 States have implemented EDR and the 12 remaining States under contract are expected to implement EDR in 2008 or 2009.

Cases involving Workers Compensation (WC) and Social Security benefits are highly error-prone. This is a labor-intensive workload that continues to be a problem despite significant and ongoing efforts. The President's FY 2009 budget includes a proposal that would greatly simplify processing of WC cases. This proposal would change the amount of workers' compensation offset to a percentage of the benefits paid to the disabled worker and the worker's family and limit the length of offset to 5 years. It also addresses the fact that the offset under current law affects low earners much more than others. We estimate that this change would reduce administrative costs by $25 million and save 350 work years over 5 years.

We are in the process of developing automated capabilities that will further prevent, identify, and correct computation errors. For example, we recently entered into an agreement with the OCSE to access the database of new hires to detect work activity of DI beneficiaries. We are improving the accuracy of earnings records by encouraging employers to file wage reports electronically. In FY 2006, 75 percent of W-2s were filed electronically, up from less than 10 percent in 1999.

Another effective tool to enhance program stewardship is the Pre-Effectuation Review (PER) of samples of disability allowances in both the DI and SSI programs. The Social Security Act requires the Commissioner to review 50 percent of disability allowances and report on the findings each year. SSA uses a computer model to identify the most error-prone cases and subjects them to a quality review. The most recent report says that SSA spent about $46 million reviewing nearly 300,000 cases in FY 2006 for an estimated present value of lifetime program savings, including Medicare and Medicaid, of $609 million. An estimated $13 was saved for every $1 spent on these reviews. The report for FY 2007 will be published later this year.

Debt Collection

In addition to our efforts to prevent and detect improper payments, SSA also has a comprehensive debt collection program. We use both internal and authorized external collection tools to collect what we are owed. Internal methods include benefit withholding and cross-program recovery for persons who are on our rolls, and our own billing and follow-up system to collect overpayments from individuals who are no longer receiving benefits. Other authorized external debt collection tools and methods include:

- Tax Refund Offset;
- Administrative Offset (collection of a delinquent debt from a Federal payment other than a tax refund);
- Credit Bureau Reporting;
- Administrative Wage Garnishment;
- Non-Entitled Debtors Program (a system that facilitates recovery of debt owed by non-beneficiaries, such as representative payees); and,
- Federal Salary Offset

We plan to continue improving the Agency's debt collection program. The future will see completion of several remaining debt collection tools. They include the use of private collection agencies, administrative fees, and interest charging or indexing a debt to reflect its current value.

Conclusion

Mr. Chairman and members of the subcommittee, SSA is committed to ensuring that the public receives the benefits they are due and assuring taxpayers that Trust Fund and general revenue funds are accurately and efficiently paid. We are responsible for over $610 billion in benefit payments annually, and we take our stewardship responsibility very seriously. Every year, we focus on initiatives that have the most potential to improve the integrity of the Agency's programs by improving debt prevention, detection, and collection. We believe that our efforts have yielded significant results and know that the cap adjustment funding for program integrity will allow us to do even more and prove that these activities work.

We will continue to work with Congress on initiatives to eliminate improper payments, improve the service we provide the American people, and maintain their trust in our ability to be effective stewards of their money. I appreciate the opportunity to discuss our efforts, and I will be happy to answer any questions you may have.

Post-Hearing Questions for the Record Submitted to Submitted to Daniel I. Werfel, Acting Controller, Office of Management and Budget

Senator Thomas Carper

1. **I understand that it is often very difficult to address improper payments problems in programs such as TANF that involve grants to states and localities. The Single Audit Act, as you know, is the tool that the federal government uses to ensure program integrity in these types of programs. What kinds of changes should be made to the Single Audit Act, which already requires recipients to have proper systems of internal control to ensure front-end compliance with Federal requirements that would assist in identification and reduction of improper payments?**

OMB response:

OMB is exploring reforms to the Single Audit that will help achieve successful results in the implementation of the Improper Payments Information Act (IPIA). Specifically, we are evaluating how the Single Audit can be expanded beyond Federal program compliance to better assess the risk of improper payments and the extent to which improper payments are systemic throughout the program. If the Single Audit can be leveraged in this manner, Federal agencies could have an important tool for obtaining cost-effective IPIA error measurements. Additionally, because the Single Audit tests internal controls, this change would provide greater insight on corrective actions that will have a broader impact on program integrity and thus have a higher return on investment. A task force made up of representatives from both Federal and State governments has been formed and initial recommendations are expected by September 2009.

2. **The FY 2007 Audit Report on the Consolidated Financial Statement indicates that the Federal government's inability to determine the extent to which improper payments occur is one of the major government-wide material weaknesses that led to GAO's adverse opinion on internal control. Did this compliance issue translate to reportable conditions or limitations in opinions on financial statements at the individual departments? It seems that the magnitude of the improper payments numbers we are seeing in programs could be exceeding materiality to these accounts. Are CFO Act financial statement internal control and substantive audit tests of disbursements as stringent as they need to be?**

OMB Response:

The material weakness cited by GAO in the FY 2007 audit report on the Financial Report of the United States Government was supported by compliance issues for several departments and agencies that feed into the Financial Report. Specifically, agency auditors for the Departments of Defense, Homeland Security, Health and Human Services, and Transportation

reported noncompliance issues related to key IPIA requirements, including inadequate risk assessments, sampling methodologies, implementation of corrective actions, recovery of improper payments, and documentation.

Financial statement audits, in and of themselves, may not be the best vehicle for auditing improper payments. Financial statement audits are designed to provide the reader with a level of assurance that the financial statements are fairly presented and that they are materially correct. Financial statement audits of agencies, however, are not specifically designed to detect fraud, waste, or abuse; to opine on the structure, operations, or controls of Federal programs; and do not typically encompass its grantees or other recipients of financial assistance, all of which may result in improper payments.

Financial statement audits are useful in that they can uncover potential areas in which a department or agency or its auditors may consider additional reviews, audits, or investigations. For example, in the course of a financial statement audit, auditors may identify programs or other areas where fraud, waste, or abuse is suspected. This suspicion could lead to further reviews or investigations that are specifically designed to detect fraud, waste, or abuse. Likewise, financial statement audits may raise concerns in which programmatic audits may be conducted specific to the structure, operations, or controls of programs.

3. **The expansion of government-wide systems for third party data matches across government programs sounds like an important program integrity improvement and potential cost savings initiative. How can we ensure that all agencies across government are pursuing automated data checks across agencies and programs whose data they are reliant upon wherever this makes sense? How can we provide access to necessary data across government to improve program integrity over payments without requiring new authority on a case by case basis?**

OMB Response:

Instituting automated data checks is a three-part process. First, agencies must determine the program information requiring authorization matches. Then, agencies must identify whether there are any third party systems available to perform the match. Finally, the system information must be reviewed to determine if the available data meets the cross-check needs, if system modifications are necessary to perform the data match, and if data access requires statutory authority.

The CFO Council Improper Payment Transformation Team is working with agencies to identify which data matching tools might assist agencies in reducing improper payments. Blanket access authority for certain circumstances or agencies is certainly an idea worth investigating further. However, many of the systems that might be used for third party data matches contain personal data (e.g., social security numbers), and security concerns regarding data access must also be addressed adequately.

4. **The role of the certifying officers at disbursing agencies provides the last line of defense in preventing many improper payments. Under Treasury regulation, certifying officers at disbursing agencies must certify that payments are legal, proper, and correct at disbursement. Are these personnel provided the necessary tools to perform their jobs including proper training and authority? Are they ever pressured to release questionable payments to maintain productivity levels and thus sacrificing quality for quantity due to competing agency demands? What can Congress and OMB do to strengthen their role across government?**

OMB Response:

By statute, a certifying officer at an agency is responsible for ensuring that payments which they certify and which are made by the Federal government are legal, proper, and correct. In certifying payments, certifying officers rely heavily on individuals within their agencies who initiate and/or sign source documents such as purchase orders, receiving reports, or invoices. These individuals actually determine that the payment is legal, proper, and correct, while the certifying officer verifies the payment based on these documents.

Rather than taking action to strengthen the role of the certifying officer, agencies should implement tools that provide certifying officers additional information on any risks that exist in the acquisition and payment process. Specifically, as long as the certifying officer (1) based his/her certifications on official records; (2) exercised sufficient due diligence in performing his/her duties; and (3) had no personal knowledge of any illegal, improper, or incorrect payments, it is unlikely that significant improper payments could be prevented at the point payments are certified. However, if tools existed to highlight riskier payments prior to certification, then those payments could be manually reviewed one additional time before they were finalized. These tools could perform functions such as the following:

- Reporting on payments where improper payments had previously been made from the same purchase order.
- Reporting on payments where the receiving official for that payment had previously accepted the goods or services that were subsequently found to be in error.
- Reporting on payments to organizations that have a history of billing the government erroneously.

5. **What do we do to ensure agencies understand the most effective methods for complying with improper payments assessments and reporting and elimination of problems? How are best practices shared? For example, the Chief Financial Officer Council (CFOC) web site for the Improper Payments Transformation Team might be a useful tool but the page is blank.**

OMB Response:

OMB meets regularly with the CFO Improper Payment Transformation Team, a working level team under the CFO Council. The team permits OMB to directly disseminate guidance and other information, and it also allows agencies a means to easily share best practices. Additionally, the CFO Council meetings have proven to be an effective venue for

communicating progress, best practices, and challenges in various program areas across agencies.

6. **In your analysis, is agency management doing enough to hold people accountable for program integrity? Is success in setting improper payments reduction targets and meeting those targets a factor in managers' performance evaluations or pay and bonus determinations? Should we have government-wide performance standards for proper payment goals and expectations? Are agencies being aggressive enough with their reduction targets?**

OMB Response:

The Administration has made the elimination of improper payments a major focus of the President's Management Agenda (PMA) by creating the Eliminating Improper Payments program initiative. By dedicating a separate PMA initiative to improper payments that closely mirrors the IPIA, the Administration and agencies are holding managers accountable for meeting the goals of the IPIA and are dedicating the necessary attention and resources to meeting its requirements. The results from the past four years of reporting have demonstrated that once an agency has measured and reported program errors, it is able to implement corrective actions to reduce errors in subsequent years.

The Administration has set government-wide goals to reduce the improper payment rate. Programs first reporting in the baseline year of FY 2004 had a 4.4 percent error rate, which declined to 3.1 percent by FY 2007. The goal is to continue reductions in the FY 2004 baseline programs to 2.7 percent by FY 2010, as shown in the table below.

Government-wide Outyear Reduction Targets *($ in millions)*

	FY 2008		FY 2009		FY 2010	
	Error $	Rate	Error $	Rate	Error $	Rate
FY 2004	37,325.3	2.9%	37,818.5	2.8%	38,484.6	2.7%
FY 2005	1,452.8	1.1%	1,048.1	0.8%	822.8	0.6%
FY 2006	477.3	0.5%	366.5	0.4%	281.3	0.3%
FY 2007	16,257.5	12.5%	17,250.6	12.7%	18,210.2	12.8%
Total	**55,513.0**	**3.4%**	**56,483.6**	**3.3%**	**57,798.8**	**3.2%**

To achieve these goals, Federal agencies are pursuing numerous, aggressive, and varied administrative actions to facilitate the identification and elimination of improper payments. Such administrative actions must be complemented by targeted programmatic reforms if efforts to eliminate improper payments and realize program savings are to be fully successful. Specifically, out-year reductions will not occur without the program integrity funding and legislative reforms requested in the President's FY 2009 Budget. For example, the FY 2009 Budget includes an important savings proposal that, if enacted, would improve the Federal Government's ability to reduce improper payments. The proposal, Payment Transaction Integrity, would revise an existing exception to the Right to Financial Privacy Act of 1978 so that improper electronic payments and improperly directed Treasury checks can be traced and recovered. This proposal would also require Treasury to verify the ownership of a bank account

before electronically debiting the account to collect funds owed to the government. The OMB report, *Improving the Accuracy and Integrity of Federal Payments*, issued January 31, 2008 (http://www.whitehouse.gov/omb/financial/fia/2007_ipia_final.pdf), discusses this and other reforms for reducing improper payments proposed in the FY 2009 Budget on pages 12-13. OMB will continue to work with the agencies and Congress to facilitate the enactment of the funding requests and legislative reforms.

7. **As you know, there has been some debate in this subcommittee about whether the reporting threshold in the Improper Payments Information Act should be lower. I've actually introduced legislation that would do that, among other things. Can you explain for us what you do to ensure that programs that are not reporting improper payments are still doing all they can to improve program integrity?**

OMB Response:

We appreciate the subcommittee's continued efforts toward eliminating improper payments, and OMB shares that goal, but we believe that the existing legislative framework of the IPIA and the Recovery Auditing Act (RAA), each complemented by the PMA, have proven to be effective.

Specifically, all Federal outlays have some payment controls in place; and under OMB's implementation of IPIA and the RAA, 83 percent (or $2.2 trillion) of the $2.7 trillion in FY 2007 total Federal outlays were subject to additional payment measurement and review. The amounts not subject to additional review have been deemed lower risk, including (non-DOD) civilian compensation, interest on the public debt, and $47 billion in various other outlays.

If faced with a lower threshold and no additional resources, we are concerned that agencies will have no choice but to redirect funds currently used toward program integrity efforts in identified high risk programs toward measuring and reporting erroneous payments for the $47 billion in other low risk outlays. The cost of redirecting resources to these lower risk programs would outweigh any potential benefit.

All agencies are required to review all programs and activities they administer and perform periodic risk assessments to ensure proper identification of reportable programs. The agencies or OMB may also designate programs as reportable due to the large dollar value of the program, audit findings, congressional interest, or other factors; and many programs (including all DOD programs, for example) are reported even though they fall under the threshold criteria of $10 million and 2.5 percent specified in Appendix C of Circular A-123.

Under the existing framework, Federal agencies are expanding the number of high risk programs identified each year. Specifically, the number of programs deemed risk-susceptible for improper payments has grown from 46 programs in FY 2004 to more than 80 programs in FY 2007. Twenty-two of these programs were below the 2.5 percent reporting threshold, but were nevertheless identified by agencies as high risk. The risk-based approach employed by OMB and the Federal agencies both provides effective coverage of risk susceptible programs and allows agencies to deploy program integrity resources to those areas where the greatest impact on improper payment eliminations will be achieved.

Senator Carl Levin

1. **OMB Circular A-123, Appendix C, states: "An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements." During the hearing, the Government Accountability Office (GAO) stated that, in its view, the Improper Payments Information Act (IPIA) requires federal agencies to report improper payments made not only to program beneficiaries or agency employees, but also to vendors and contractors. The materials prepared by GAO for the hearing, however, indicate that, while the Department of Defense (DOD) reported $550 million in improper payments to vendors and contractors ("Commercial Pay") in 2006, it did not report any figure for this category in 2007 (GAO testimony, Appendix 2 (pp. 27-28)).**

   (a) Please provide the total amount of DOD improper payments to vendors and contractors in 2007.
   (b) Please explain why DOD did not include this figure in its 2007 IPIA report, including whether a determination was made by DOD or OMB that this total did not meet the 2.5% or $10 million threshold for high risk payments.
   (c) At the hearing, OMB seemed to indicate that its policy was not to require agencies to report improper payments to vendors and contractors under the IPIA, and to report these payments instead under the Recovery Audit Act. Please explain, then, why DOD reported improper payments to its vendors and contractors in 2006.
   (d) Has OMB informed not only DOD, but also other federal agencies, that they do not have to and should not include improper payments to vendors and contractors in their IPIA reports? If so, what is the justification for that instruction?
   (e) Please identify the federal agencies that did not include a figure for improper payments to vendors and contractors in their 2007 IPIA reports and, for each such agency, provide the actual or estimated total amount of these improper payments.
   (f) Please indicate whether OMB is willing to send a new instruction to DOD and other federal agencies directing them to include improper payments to vendors and contractors in future IPIA reports and, if so, when that instruction would be issued.

<u>OMB response:</u>

Background

OMB guidance in Appendix C of Circular A-123, Requirements for Effective Measurement and Remediation of Improper Payments, implements the Improper Payments Information Act (IPIA) and the Recovery Auditing Act. Both Acts focus on reducing and recovering improper payments; however, the Recovery Auditing Act (RAA) specifically addresses payments to contractors – a logical distinction based on the nature of payment activities. OMB's guidance corresponds with the law's distinction by applying improper payments sampling and reporting requirements to programs for payments to individuals

(e.g., benefit payments) and recovery auditing procedures and reporting for payments to contractors.

Reporting program payments to individuals utilizes statistical sampling to estimate error rates and to identify causes of errors and corrective actions to improve internal controls. Random sampling allows valid statistical reporting of estimated error rates and amounts for programs with numerous transactions of relatively small dollar amounts. This approach does not maximize recovery opportunities, as only a small number of payments (i.e., those payments in the statistical sample) can be identified as having an actual error where recovery efforts would be viable. Instead, this approach provides a more comprehensive view of the root causes of error across the program and provides opportunities for broad-based internal control improvements that will prevent the incidence of improper payments in future years.

Recovery auditing efforts also have the goal of improving internal controls and reducing improper payments, but the emphasis is on maximizing collections. Payments to contractors are generally larger than eligibility payments to individuals; and targeting the larger errors instead of a random sample of all payments increases recovery opportunities, maximizing the benefit to the government and the taxpayers. Thus, unlike the IPIA, the RAA does not contemplate an estimate of program-wide improper payments, but instead requires Federal agencies to identify the largest possible pool of known (or actual) errors so that those errors can be corrected and recovered expeditiously.

(a) The total amount of improper payments to vendors and contractors identified by DOD in FY 2007 was $338.4 million. This amount was disclosed in the IPIA Recovery Auditing Reporting section on page 114 of the FY 2007 Agency Financial Report (AFR) rather than in the Program Improper Payment Reporting section.
(b) DOD reports improper payments in two subsections in the AFR: 1) Program Improper Payment Reporting and 2) Recovery Auditing Reporting. In FY 2006, DOD reported commercial payment errors in both sections. In FY 2007, DOD only included commercial payment errors in Recovery Auditing Reporting to better reflect OMB guidance in Appendix C of Circular A-123, Requirements for Effective Measurement and Remediation of Improper Payments, and Circular A-136, Financial Reporting Requirements.
(c) See response (b).
(d) As discussed above in the background information, OMB's guidance in implementing the IPIA and RAA treats payments to individuals and payments to contractors differently. Recovery auditing has an additional focus on maximizing collections; and by targeting larger errors, agencies increase their recoveries. This provides greater benefit to the government and the taxpayers.
(e) Agencies with more than $500 million in contractor payments report improper payments and related recoveries, but reporting is only required when recovery auditing is cost-beneficial.
    1. The following agencies identified improper contract and/or vendor payments within their recovery audit reporting in FY 2007: USDA, DOD, Energy, GSA, HHS, DHS, DOJ, RRB, SSA, State, Transportation, Treasury, VA, USAID, and TVA.
    2. DOL did not report improper contract or vendor payments in FY 2007, but is instituting recovery audit contracts for future reporting.

3. The following agencies found no significant amounts for recovery, determined recovery auditing would not be cost-effective, or did not enter into contracts with a total value in excess of $500 million: Commerce, Education, EPA, FCC, HUD, Interior, NASA, NSF, and SBA.

(f) We do not believe it is necessary to send a new instruction to DOD and other Federal agencies directing them to include improper payments to vendors and contractors in future IPIA reports. Current OMB guidance corresponds with the distinctions between IPIA and RAA, and agencies include relevant improper contract and vendor payment data in RAA reporting accordingly. Adding improper payments sampling requirements to contract and vendor payments for IPIA reporting purposes would divert attention and resources away from the more significant errors, reducing the ability for agencies to maximize recoveries.

2. The Financial Management Service in the Department of Treasury operates the Treasury Offset Program (TOP), which is a mechanism used to screen outgoing federal payments to determine whether the recipient owes any non-tax debt to the federal government and, if so, to recover a portion of that federal payment to be applied to that outstanding debt. Please comment on the extent to which federal agencies are using TOP to recover improper payments, the effectiveness of TOP in these recovery efforts, and how TOP could be improved to facilitate the recovery of improper federal payments.

OMB response:

While Treasury's Financial Management Service tracks the types of debts it collects in broad categories, it does not specifically track whether or not a collection relates to an improper payment. Additionally, the Debt Collection Improvement Act of 1996 requires all delinquent debts over 180 days to be referred to Treasury. However, many identified improper payments are recovered within 180 days, and as a result these payments would not be referred to TOP. Overpayments only end up with TOP if a receivable is established with no payment plan existing by the end of the 180 days.

Post-Hearing Questions for the Record
Submitted to Anthony Dale, Managing Director
Federal Communication Commission

From Senator Thomas R. Carper

"Eliminating Agency Payment Errors"
Hearing Date: January 31, 2008

1. **What has your agency done or plan to do to use technology to reduce improper payments by eliminating manual, paper-based processing of payments and automating internal controls? Have you seen the benefits these types of technology investments provide?**

   ANSWER: At this time, the Federal Communications Commission (Commission) is undertaking two main steps to use technology to help reduce or prevent improper payments in our programs, including the Universal Service Fund (USF). First, the Commission is upgrading its antiquated financial system in order to better manage the funds within our purview. The Commission started the procurement process in September 2007, and the Commission's staff technical evaluation team is currently reviewing responses from prospective vendors. Second, the Commission is working with the non-profit administrator of the USF, the Universal Service Administrative Company (USAC), to upgrade and enhance the financial and other information technology systems used to manage the program. In this regard, the Administrator of the program conducted a procurement in 2007 and, in January 2008, completed the process for selecting a vendor to deploy certain technology enhancements. In conjunction with the Commission's Office of Inspector General, we are monitoring this project and other USAC information technology projects.

   We will continue to work with the Commission's Inspector General and others to examine ways that we can use technology to reduce or prevent improper payments in the programs under our purview.

2. **I've been dissatisfied with the amount of recovery auditing we've seen in the federal government. With the exception of Medicare and a few agencies with large amounts of contractor payments, it appears that little recovery of improper payments is happening at all. What do you see as the major impediments to conducting recovery auditing and recovery of erroneous payments in your programs? What can be done to address this and to accelerate your current efforts? Are their other tools or incentives that can be applied at your agency to improve recovery of erroneous payments? How can Congress help?**

   ANSWER: The Commission is committed to recovering improperly disbursed funds. With respect to the USF, we have already directed the non-profit administrator to seek recovery of improperly disbursed funds identified by the Inspector General, and these efforts are already underway. In addition, in August 2007, the Commission adopted new

rules to debar bad actors from continuing to participate in the program. We expect that these new debarment provisions will provide strong incentives for greater compliance by program participants. We are constantly evaluating are progress in this area, and we will continue to explore additional measures we can implement to prevent and deter potential improper payments.

The major impediment to conducting recovery auditing in our programs is continued funding of the Inspector General's audit oversight program so that we can identify improper payments. For Fiscal Year 2009, the Inspector General requested $25.48 million in funding for continued oversight. We would request Congress's help by acting on the Inspector General's request.

3. **It is the role of management to ensure that systems of internal control are robust enough to deter the fraud, waste, and abuse. However, the improper payments numbers being reported in many agencies over significant periods of times indicate an institutionalization of marginalized performance that becomes fertile ground for fraud, waste, and abuse. How does management make it clear to its employees and program community that it is not business as usual and encourage proactive participation by all to address the problems that lead to improper payments? Is expanded outreach to employees, contractors and/or beneficiary communities necessary to turn this around?**

   Examples of outreach programs include the DoD's recently instituted "check-it" campaign agency-wide to improve program integrity. The Immigrations and Customs Service (ICE) was successful in eliminating many financial management material weaknesses with its financial action plan (FAP) campaign of "FAP Fever" agency-wide during its FY 2006 audit. What can your agency do to energize the people element in preventing improper payments and improving program integrity? How can Congress help?

   ANSWER: An agency should aggressively work to identify and prevent improper payments and to recover any improperly disbursed funds. Under current Chairman Kevin J. Martin, the Commission has focused a significant amount of its limited resources on preventing improper payments and improving program integrity. For example, the Commission initiated a rulemaking proceeding to gather public input on ways to safeguard the program and then implemented recommendations from that rulemaking, such as improved document retention requirements and provisions to debar bad actors from continued participation in the program. The Commission has also implemented substantial improvements to the internal controls and oversight of the program, including implementing greater anti-fraud measures, establishing a Memorandum of Understanding with USAC, and implementing performance measures for managing the fund. These efforts have resulted in unprecedented high marks from the Commission's independent auditor for two years in a row. In addition, we have identified specific performance measures in the annual performance plans of key members of the Commission's Senior Executive Service corps to ensure continued focus and attention to preventing improper payments.

We would request Congress's help at this time to follow-through on the Inspector General's request for additional Fiscal Year 2009 funding in order to enable the continuation of our audit oversight program.

At this time, we would request Congress's help by acting favorably on the Inspector General's Fiscal Year 2009 request for $25.48 million in additional funding that would remain available until expended. This would be a follow-up to Congress's approval of $21.48 million in funding for the Inspector General in Fiscal Year 2008.

4. **Some agencies report working with their Inspectors General in their tests for improper payment risk in programs. Are you working with your Inspector General (IG) to achieve results in eliminating improper payments? What have been your successes or your impediments to working with your IG in this area? How can you overcome impediments? What has worked well? How can Congress help?**

ANSWER: We are working closely with the Commission's Inspector General to eliminate improper payments in our programs, including the USF. We have had two primary successes in this regard. First, the Inspector General conducted a comprehensive, statistically-valid audit program of the USF to identify potential improper payments in the USF. The Inspector General received funding in Fiscal Year 2008 to continue comprehensive audit oversight and plans to maintain a high level of scrutiny over the program. Second, the receipt and incorporation of the Inspector General's feedback and suggestions for program improvements. This successful working relationship has afforded the Commission's management the opportunity to focus on developing solutions to fix improper payments instead of only focusing on identifying the range of potential improper payments.

To date, the major impediment has stemmed from insufficient resources. Obtaining sufficient funding for the Inspector General to conduct comprehensive oversight of the program is crucial to our success in this area. This impediment has been addressed in the short term through Congress's approval of the Commission's Fiscal Year 2008 budget request, which included $21.48 million in funds requested by the Inspector General for increased oversight. At this time, we would request Congress's help by acting favorably on the Inspector General's Fiscal Year 2009 request for an additional $25.48 million that would remain available until expended.

Post-Hearing Questions for the Record Submitted to
Charles Johnson, Assistant Secretary for Budget,
Technology and Finance,
U.S. Department of Health and Human Services

1. **What has your agency done or plan to do to use technology to reduce improper payments by eliminating manual, paper-based processing of payments and automating internal controls? Are you seeing the benefits these types of technology investments provide?**

The Department of Health and Human Services (HHS) recently completed a multi-year, phased-in implementation of the Unified Financial Management System (UFMS), which is an Oracle-based, commercial-off-the-shelf (COTS) financial management system. UFMS provides best practice financial management tools across the Department. In addition to UFMS, the Department is currently developing the HHS Consolidated Acquisition System (HCAS) that will automate the procure-to-pay process and integrate procurement with the financial management system on an enterprise-wide basis. UFMS and HCAS will provide a foundation for the enhanced use of advanced technologies such as data-mining and predictive modeling, and will lead to the elimination of the manual, paper-based processing and controls currently in use in many parts of the Department.

In a large, complex, and decentralized organization such as HHS, payment risk must be assessed and managed on an enterprise-wide basis. Shifting from a manual, paper-based payment process to an electronic environment afforded through UFMS and HCAS will allow the Department to focus on and strengthen our preventative controls. For instance, it is expected that the use of predictive modeling to identify where payment issues are likely to occur, would allow the Department to focus limited resources on high-risk areas to prevent or reduce the likelihood of improper payments from occurring. UFMS and HCAS will also facilitate the routine use of data-mining software by the Department to detect the extent of payment errors in an efficient manner. In addition to deterring waste, fraud and abuse, these automated tools should result in a reduction in audit findings and improved risk management throughout the Department.

2. **I've been dissatisfied with the amount of recovery auditing we've seen in the federal government. With the exception of Medicare and a few agencies with large amounts of contractor payments, it appears that little recovery of improper payments is happening at all. What do you see as the major impediments to conducting recovery auditing and recovery of erroneous payments in your programs? What can be done to address this and to accelerate your current efforts? Are their other tools or incentives that can be applied at your agency to improve recovery of erroneous payments? How can Congress help?**

The Medicare program, which accounts for almost sixty percent of HHS' FY 2008 projected outlays, has developed and implemented a robust recovery auditing program that has resulted in a significant amount of recoveries. For example, the Medicare Recovery Audit Contractor (RAC) returned $247 million in recoveries to the Medicare Trust Funds in FY 2007. These funds were recovered from providers in just three States (California, New York and Florida). We are in the process of expanding the RAC program to include all 50 States by 2010.

HHS' overall recovery auditing program, which is focused primarily on payments to vendors however, has yielded very different results. Similar to other Federal agencies, our recovery audit contractor is paid on a "contingency fee" basis, which means that they were entitled to retain a certain percentage of any recoveries. No other monies are paid to these contractors beyond their percentage of recovery fees. Using a contractor paid on a contingency fee basis is advantageous for Federal agencies because the Government and the contractor's objectives are the same: namely, to recover improperly paid amounts.

Based on professional experience, our contractor pursued the most likely approach to identifying and recovering erroneous payments by searching for "duplicate" payments. Duplicate payments are often identified through a computer search typically using "data mining" techniques to produce a list of possible duplicate payments. The recovery audit contractor works through the paying agency to investigate the possible duplicate payments to discern whether they were made properly or not. If a determination is made that they were made in error, the agency will request a refund from the vendor in question.

Following the strategy described above, our recovery auditing contractor has not found much in the way of duplicate payments or other improper payments. For the period 2002-2005, our recovery audit contractor reviewed over $24 billion of contract payments. Of the $24 billion, less than one-tenth of 1 percent of those payments was identified as possible duplicate payments and even less was actually recovered. While this process resulted in only a small amount of actual recoveries, it reinforces other assessments performed by the Department of our internal controls over the payment process. For instance, our annual assessment of internal controls required by OMB Circular A-123, *Management's Responsibility for Internal Control*, indicates that the controls over HHS' payment systems are effective.

Beyond duplicate payments, a further step that could be taken would be to examine contract language to determine if all contract provisions and modifications were correctly carried out. If issues were discovered in this process, it is possible that improper payments were made as a result. However, to undertake this process would require significant resources. The recovery auditors made a business decision not to pursue this portion of the potential recoveries because of the perceived low potential returns.

Recovery auditors in the public sector do not have the same tools available to them that they do when operating on private sector recoveries. Recoveries in the public sector must

follow laws that pertain to government agencies. The Paperwork Reduction Act, in particular, restricts the paperwork that recovery auditors are permitted to send to vendors. In fact, recovery auditors in the public sector mainly need to communicate with vendors through the respective agencies. In private sector recoveries, auditors can pursue recoveries directly with vendors.

Finally, Congress could consider allowing agencies to keep a portion or percentage of their recovered funds and "reinvest" them in further safeguarding our payment systems through additional recoveries and enhanced internal controls.

3. **It is the role of management to ensure that systems of internal control are robust enough to deter the fraud, waste, and abuse. However, the improper payments numbers being reported in many agencies over significant periods of times indicate an institutionalization of marginalized performance that becomes fertile ground for fraud, waste, and abuse. How does management make it clear to its employees and program community that it is not business as usual and encourage proactive participation by all to address the problems that lead to improper payments? Is expanded outreach to employees, contractors and/or beneficiary communities necessary to turn this around?**

   Examples of outreach programs include the DoD's recently instituted "check-it" campaign agency-wide to improve program integrity. The Immigrations and Customs Service (ICE) was successful in eliminating many financial management material weaknesses with its financial action plan (FAP) campaign of "FAP Fever" agency-wide during its FY 2006 audit. What can your agency do to energize the people element in preventing improper payments and improving program integrity? How can Congress help?

HHS management and employees share a positive and supportive attitude toward internal controls and our overall control environment. We have also demonstrated a commitment to the competence of our employees and employ good human capital policies and practices. HHS has made a thorough assessment and identification of risks, from both internal and external sources. Appropriate policies, procedures, techniques, and control mechanisms have been developed and are in place to ensure adherence to established directives. Information systems are in place to identify and record pertinent operational and financial information relating to internal and external events. Finally, HHS uses internal control monitoring to assess the quality of performance over time.

One of the challenges faced by HHS is that many of our large programs (e.g., Medicaid; State Children's Health Insurance Program or SCHIP; Temporary Assistance for Needy Families or TANF; Child Care; and Foster Care) have a Federal funding component but are administered by the States. This decentralized approach, whereby each State has the flexibility to administer each program, poses many challenges regarding including the need for continuous emphasis on strong internal controls.

HHS believes that one way to increase awareness of our efforts to reduce improper payments is for the Federal government to develop and promote outreach efforts among State governments regarding our shared responsibilities as public stewards for implementing the Improper Payments Information Act (IPIA). The IPIA holds Federal agencies accountable for implementation; however, when soliciting cooperation on this initiative from the States, some States have viewed their participation in this process as an unfunded mandate.

One way HHS is promoting the importance of the responsibility of public stewardship is by serving as a member of the newly established Partnership for Intergovernmental Management and Accountability, a group sponsored by the Association of Government Accountants (AGA). This organization was established to provide more effective communication between the Federal government and its State partners, particularly with respect to the improper payment initiative.

Within the Federal government, HHS has chaired the Improper Payments Transformation Team (IPTT) since March of 2006. The IPTT, a sub-committee of the Chief Financial Officers' Council, has a membership of agencies with mostly large programs that are reporting error rates annually. The IPTT has been a good source of outreach among federal programs.

In addition, HHS has reached out to the American Public Human Services Association (APHSA), a State-sponsored organization, to discuss the challenges and work together to develop a method of measuring and reducing improper payments in the TANF program, a program that we have struggled to develop an error for since the inception of IPIA.

4. **Some agencies report working with their Inspectors General in their tests for improper payment risk in programs. Are you working with your Inspector General (IG) to achieve results in eliminating improper payments? What have been your successes or your impediments to working with your IG in this area? How can you overcome impediments? What has worked well? How can Congress help?**

HHS enjoys a positive and professional relationship with our Office of the Inspector General (OIG). We have worked together on a number of aspects of our IPIA initiative, particularly error rate development and error rate production, over the past decade.

The Medicare error rate, which has been reported since 1996, was originally produced by our OIG. The HHS OIG was also instrumental in transferring the Medicare error rate development process a few years ago to The Centers for Medicare and Medicaid Services (CMS), the agency that runs Medicare. OIG served as an advisor in the development of the rate, helping CMS to design a statistically-sound process that would produce a rate each year in our annual Performance and Accountability Report (PAR). In addition, the OIG conducts an annual audit of the Medicare error rate process to ensure the methodology is being properly applied and the rate is reliable.

The OIG has also assisted the Department in developing the first error rates for the TANF program, which were first reported in the FY 2007 PAR. They undertook this work as a result of TANF statutory limitations that prevent HHS program managers from performing this task.

OIG has also served as a consultant in the development of the error rate methodology for Medicaid and SCHIP. They advised us during the early stages of rate development, including the process of moving from the development phase to the reporting phase.

The OIG has been instrumental in assisting the Department in implementing IPIA over the years. HHS is on target to produce and report for the first time error rates for each of our seven high-risk programs in the FY 2008 PAR (or equivalent). HHS success is due, in large part, to the sustained commitment and assistance provided by the OIG.

Post-Hearing Questions for the Record Submitted to
David Rust, Acting Deputy Commissioner,
Disability and Income Security Programs,
U.S. Social Security Administration

1. **What has your agency done or plan to do to use technology to reduce improper payments by eliminating manual, paper-based processing of payments and automating internal controls? Have you seen the benefits do these types of technology investments provide?**

The Social Security Administration (SSA) is recognized by the government sector and private sector as an information technology (IT) leader. We consistently leverage technology to modernize and streamline core business processes that affect payment processing and accuracy. For example, SSA employees use online, interactive software applications for the benefit application process. The software logic for these applications incorporates a host of automated internal controls that help ensure the accuracy of the payment decision and benefit amount. Also, in response to increasing public demand for services available via the Internet, SSA developed, and continues to enhance, the Internet Social Security Benefit Application. This online service allows the public to apply for retirement, spouses, and disability benefits via the Internet. It also incorporates automated internal controls that support payment accuracy.

In addition to these software applications that reduce error in the initial benefit application process, SSA invests in many IT initiatives that support and enhance ongoing payment accuracy after the initial benefit determination has been made.

One of SSA's "IT portfolios" specifically addresses improper payments and aims to improve program integrity across three fronts: detection of improper payments; prevention of improper payments; and collection of debt. IT projects with significant benefits related to improper payments include the following:

Electronic Death Registration (EDR)
The EDR initiative automates the States paper-bound death registration process and provides the capability for States to verify the social security number (SSN) with SSA online and in real-time. This automation of the States' systems, which SSA partially funded, allows States to send SSA, via secured internet, fact-of-death information within 5 days of the individual's death and within 24 hours of the report's receipt in the State repository. SSA has automated its systems to take an immediate action to stop the deceased individual's benefits without employee involvement. SSA systems have been automated in most instances to pay the lump-sum death payment and convert life benefits to survivor's benefits. As required by law, SSA also electronically shares this data with federal benefit-paying agencies that use the data to detect or prevent improper payments.

To date, 23 States/jurisdictions have implemented EDR, and 36 percent of all death records come to SSA via EDR.

Monthly Wage Pilot
Receipt of wages is a leading cause of overpayments in the means-tested Supplemental Security Income (SSI) program. About half of wage-related overpayments are due to fluctuations in wages. Most of the rest are due to new unreported wages. SSA has conducted two pilots of an automated monthly telephone wage reporting process to determine its potential for reducing overpayments due to unreported changes in wages. The first pilot used a PIN/password authentication process that some recipients found difficult to navigate. The second pilot, which began on January 1, 2006, uses a knowledge-based authentication system based on personal identifying information. This second pilot uses both touch-tone and voice recognition telephone technology to collect the report which is passed on to the SSI system. A receipt of the report is issued to the sender, as required by law. Reporters include both SSI recipients and their spouses and parents whose incomes can affect the recipient's benefit amounts. SSA received permanent authorization for this system from OMB in September 2007. We are currently making systems enhancements to improve usability and to allow expansion of this project.

Automated Overpayment Recovery Process
SSA has a highly automated SSI overpayment recovery process. This process automatically detects overpayments and records detailed overpayment information on the overpaid individual's record. For overpayment notices that cannot be automatically printed and mailed, the process alerts the appropriate Social Security office that a manually produced overpayment notice is required.

If the overpaid individual is no longer receiving benefit payments, the automated overpayment recovery process will begin recovery when the overpaid individual becomes eligible for future SSI and/or Social Security payments.

Disability Program Work Reports
In recent years we have put in place several automated systems to assist in processing our disability work reviews for Social Security Disability Insurance (SSDI) beneficiaries. We have fully implemented eWork, a system that assists our staff in controlling and processing work reviews. We have also integrated our work reporting receipt system into eWork so that we can control a work report from the point a SSDI beneficiary reports the work activity through the determination process.

The eWork system automates and simplifies the processing of work-related actions on Title II disability cases, connecting all of the separate pieces to the whole through electronic interface. It is a national application, permitting the interaction and exchange of information to all offices. Teleservice Centers make direct inputs to eWork and establish automated controls for the servicing Field Office, eliminating handoffs.

It also automates the completion of screens for the Disability Control File (DCF) to eliminate double keying and minimize the amount of data entry and automatically generates receipts for work reports.

In addition, we have had a system in place for several years that generates an alert when our earnings file shows significant work activity by an SSDI beneficiary. A limitation on this system is that it currently only uses Internal Revenue Service data, which is not available until the end of the calendar year. We are continuing to work with other providers, such as the Office of Child Support Enforcement, for batch access to earnings data available on a quarterly basis. This access will assist us in more quickly identifying non-reported work activity in the SSDI program.

Comprehensive Work Opportunity Support System
As part of its management of the Ticket to Work Program, SSA is building a Comprehensive Work Opportunity Support System (CWOSS) to further automate the Agency's Employment Network (EN) payment process. Currently many of these process applications, such as sending notices, are done manually. CWOSS will also help eliminate the majority of our paper folders. Within CWOSS, we are incorporating an automated quality review of the payment process. We are also planning enhancements to the Integrated Database Management System which works in conjunction with CWOSS. These enhancements will help us to verify the accuracy of EN payments and will also decrease the number of payments that must be processed manually.

Access to Financial Institutions
SSA decided to implement automated bank verification in order to prevent future overpayments. SSA contracted with a vendor to develop a web-based system automating financial account verifications for SSI applications. Electronic verification, including negative searches for bank accounts not alleged, is being conducted in California, New Jersey and New York. Based on the fiscal year 2005 study in New York, we estimate that the use of automated bank account verification could detect and/or prevent about $54 million in SSI overpayments. If funding becomes available, we plan to expand the system nationwide.

The value of SSA's IT investments is reflected in the Agency's payment accuracy rates (i.e., percent of dollars paid that are free of overpayments and underpayments). In fiscal year (FY) 2006, the Old-Age, Survivors and Disability Insurance (OASDI) overpayment accuracy rate was 99.7 percent and the underpayment accuracy rate was 99.9 percent. For the SSI program, the FY 2006 overpayment accuracy rate was 92.1 percent and the underpayment accurate rate was 97.8 percent.

2. **I've been dissatisfied with the amount of recovery auditing we've seen in the federal government. With the exception of Medicare and a few agencies with large amounts of contractor payments, it appears that little recovery of improper payments is happening at all. What do you see as the major**

impediments to conducting recovery auditing and recovery of erroneous payments in your programs? What can be done to address this and to accelerate your current efforts? Are their other tools or incentives that can be applied at your agency to improve recovery of erroneous payments? How can Congress help?

SSA contracted with the recovery auditing firm of PRG Shultz in January 2004 to conduct a review of SSA's administrative payment process and internal control structure. The recovery audit scope included a review of administrative contractor payments from FY 2001 through FY 2004 totaling $3.3 billion. Of the $3.3 billion payments reviewed by the recovery auditor, only .001 percent ($39,853.61) was identified as improper and then collected.

SSA has also established an in-house recovery audit program for the review of administrative payments. We use computer-assisted auditing techniques to identify possible duplicate payments and automated queries developed to highlight exceptions and identify payments which represent a higher risk of being improper. Results from our in-house recovery program continue to confirm that administrative payments are well below the threshold established for reporting improper payments. These results validate SSA's existing internal controls for the prevention, detection, and correction of improper payments and our commitment to eliminating agency payment errors.

SSA also uses a robust methodology for reviewing and monitoring the accuracy of programmatic payments issued under the OASDI and SSI programs. The Agency uses data from these reviews in corrective action planning and the development of automation initiatives aimed at improving payment accuracy.

SSA's strategy for continuing to improve its program to recover erroneous payments is to focus on the techniques that provide direct collections from revenue sources that can be easily integrated into existing systems. In keeping with this strategy, SSA has worked steadily over the years to build and enhance a strong debt recovery program. The Agency recovers erroneous payments in a variety of ways. Collection techniques include SSA's internal methods such as benefit withholding and billing and follow-up. In addition, SSA uses an array of external collection tools and programs such as the Treasury Offset Process, credit bureau reporting, administrative wage garnishment and Federal salary offset. Further, a new debt recovery control system called Non-Entitled Debtors (NED) is being implemented in phases. This system is being designed to control and recover overpayments from individuals with debts to SSA who do not draw an SSA benefit. In FY 2007, SSA collected $2.49 billion in program debt.

Pricewaterhouse Coopers conducts independent audits on SSA debt management systems and controls annually. Improper payments are their main focus.

The major need for increasing recovery of improper payments is resources for technical/systems enhancements and increased human resources.

Finally, it is worth noting SSA's overpayment recovery rates. Ultimately, our overpayment recovery rates are 91 percent for OASI overpayments, 59 percent for DI overpayments, 82 percent for combined OASI and DI overpayments, and 60 percent for SSI overpayments.

3. **It is the role of management to ensure that systems of internal control are robust enough to deter the fraud, waste, and abuse. However, the improper payments numbers being reported in many agencies over significant periods of times indicate an institutionalization of marginalized performance that becomes fertile ground for fraud, waste, and abuse. How does management make it clear to its employees and program community that it is not business as usual and encourage proactive participation by all to address the problems that lead to improper payments? Is expanded outreach to employees, contractors and/or beneficiary communities necessary to turn this around?**

   Examples of outreach programs include the DoD's recently instituted "check-it" campaign agency-wide to improve program integrity. The Immigrations and Customs Service (ICE) was successful in eliminating many financial management material weaknesses with its financial action plan (FAP) campaign of "FAP Fever" agency-wide during its FY 2006 audit. What can your agency do to energize the people element in preventing improper payments and improving program integrity? How can Congress help?

   Management/Internal Controls
   SSA has a well-established Agency-wide program for management controls in its administrative and programmatic processes, and Agency managers are responsible for ensuring that effective controls are implemented in their areas of responsibilities. Effective internal controls are incorporated into the Agency's business processes and financial management systems through the life-cycle development process. The user requirements include the necessary controls, and management reviews the new or changed processes and systems to certify that the controls are in place. The controls are then tested prior to full implementation to ensure they are effective.

   Management control issues and weaknesses are identified through audits, reviews, studies, and observation of daily operations. SSA conducts internal reviews of management and systems security controls in its administrative and programmatic processes and financial management systems. SSA develops and implements corrective action plans for weaknesses found through the reviews and monitors the corrective actions until the weaknesses are corrected.

   To ensure objectivity, SSA contracted with an independent public accounting firm to conduct an annual review of the Agency's management control program, evaluate the effectiveness of the program, and make recommendations for improvement. To date, the contractor's reviews have indicated that SSA's management control program appears to be effective and in compliance with Federal standards and requirements.

One important internal control is that SSA systematically limits access and the ability to process actions to employees based on the policy of "least privilege" and a "need-to-know." This limitation of access applies to both SSA career employees and contractors. Controlling and limiting systems access to the Agency's information systems and resources is the first line of defense in assuring the confidentiality and integrity of our data.

Based on an *assessment of risk*, SSA requires certain review levels based on established thresholds; e.g. amount of money involved. These procedures include but are not limited to:

- Individual PIN and password access to certain information enforced by a systems matrix. This matrix can grant read-only capability or access to effectuate programmatic actions *or* not grant access to either.
- Separation of duty procedures; e.g. to adjudicate or reverse a decision may require an additional level of review. One employee's authorization decision can be reviewed by employees in different job functions; reviewed by peer employees; or reviewed/adjudicated by employees in different locations; i.e., managerial review, peer review, field office/payment center/processing center separation.
- SSA reviews a percentage of cases in our quality assurance processes and our integrity review processes to make certain that proper and appropriate actions are taken.

Training
SSA uses employee training to help prevent fraud, waste and abuse, e.g., annual interactive video training on ethics; systems security training; and training on securing personal identification data for individuals. Employees are encouraged to report fraud, waste and abuse to management for action or to the SSA Fraud Hotline for investigation by the Office of the Inspector General (OIG). This information is prominently displayed and easily accessed on SSA's intranet.

Disability Work-Related Reporting
SSA must rely on beneficiary information and a network of third parties to assist in making sure beneficiaries report work activity. The Ticket to Work legislation provided for ENs, State Vocational Rehabilitation Agencies, and the Work Incentives Planning and Assistance programs to assist SSA in making sure beneficiaries are informed and reporting work activity. In addition, as mentioned in question 1, SSA has an automated system that generates an alert when our earnings file shows significant work activity, though there is a delay because IRS data are posted on a yearly basis. SSA has also established a tiered internal work incentives staff, Area Work Incentives Coordinators and Work Incentive Liaisons, who work at the Area and Local Office levels to assist in all aspect of work incentives, including outreach.

4. **Some agencies report working with their Inspectors General in their tests for improper payment risk in programs. Are you working with your Inspector General (IG) to achieve results in eliminating improper payments? What have**

been your successes or your impediments to working with your IG in this area? How can you overcome impediments? What has worked well? How can Congress help?

We are working with our OIG on initiatives to reduce improper payments. The Agency tracks all OIG recommendations regarding improper payments and reports to OIG each quarter on our progress towards implementation. For example, in the current quarter, SSA has been working to implement two OIG recommendations involving improper payments. These include a recommendation to run a matching operation to help recover debts from representative payees, and another recommendation to develop a computer matching agreement with the Department of Labor to acquire Federal Employees' Compensation Act recipient data to match on a periodic basis with data contained in SSA's systems with the objective of identifying and resolving improper payments.

Other examples of the cooperative relationship with SSA's OIG include:

Cooperative Disability Investigation (CDI) Units
The CDI units are a collaborative effort among the State Disability Determination Services, Operations, OIG and local law enforcement organizations. The 19 CDI units develop evidence of material fact sufficient to resolve allegations of fraud and similar fault in SSA's disability programs. The CDI units seek criminal and/or civil prosecution of applicants and beneficiaries and refer cases for consideration of civil monetary penalties and administrative sanctions when appropriate. These actions support the Agency's strategic goal of ensuring the integrity of Social Security programs with zero tolerance for fraud and abuse.

Civil Monetary Penalties Program
Civil monetary penalties may be imposed against individuals who make certain material false statements or omissions in order to receive initial or continuing benefits under the Social Security Act. The Commissioner of Social Security has delegated the authority to implement the civil monetary penalty program to the Inspector General. The Act allows OIG to impose a $5,000 penalty for each false statement in addition to an assessment of up to twice the amount of benefits paid because of the false statement. SSA is responsible for ensuring that the monetary penalty imposed by OIG is collected by SSA.

Administrative Sanctions
Administrative sanctions are a very powerful tool in the prevention of fraud and abuse. SSA implemented the administrative sanction provisions in June 2000 giving employees a process to identify and prevent fraud. These provisions added a penalty of nonpayment of Social Security and SSI benefits when an individual is found to have made a statement or representation of material fact, for use in determining the right to or amount of benefits under the Social Security or SSI programs, that the individual knew, or should have known, was false or misleading or omitted a material fact. Upon receipt from OIG of either a

declination notice to pursue prosecution or of a closed case, the field office pursues application of administrative sanctions.

Fugitive Felons
SSA has an excellent working relationship with OIG in enforcing the fugitive felon and probation/parole violator provisions of the Social Security Act. OIG has played an integral role in SSA's successful application of these provisions to the SSI program since 1996 and was immensely helpful in implementing the extension of the fugitive felon provisions to Title II of the Act.

OIG also plays a strong ongoing role in the fugitive felon program. It reviews warrant data to help ensure that SSA matches the correct individual with an arrest warrant, ensures that the warrant is for a crime that is a felony or a probation or parole violation, and provides the enforcement agencies with information that may aid in the apprehension of individuals.

Work Activities
OIG has conducted audits for both the SSDI and SSI programs which involved investigating SSA systems and procedures to identify wages for beneficiaries and recipients which may result in improper payments. OIG audits have uncovered areas where SSA was not identifying cases where earnings were posted. The Agency has taken steps (through automation) to address and improve some of these issues. New external and internal interfaces, software applications to assist technicians in identifying cases with earnings, and additional training to SSA employees regarding improper payments are some of the results implemented as a result of OIG audits.

In addition, some agency initiatives have overlapped OIG audits, essentially correcting problems at the same time OIG has investigated them. One example is an audit done by OIG in 2004 regarding SSDI beneficiaries with earnings reported on the Master Earnings File (MEF). The audited cases detected problems in identifying cases with work activity in the master repository. This was before the DCF and the Continuing Disability Review Enforcement Operation (CDREO) systems interfaces. Since that time, the DCF repository now integrates earnings data via the CDREO process and accurately stores the data for case processing actions (i.e., work continuing disability reviews). This has helped SSA better identify and control work cases for those who did not report or under-reported work activity.

Ticket to Work
Our OIG has reviewed the Ticket to Work Program—and specifically the contractor MAXIMUS Inc. that serves as Operations Support Manager—several times since the program's implementation. OIG has been satisfied with the contractor payment review results.

Other Projects
OIG prepares analytical synopses for the Commissioner on identity fraud. As required by law, OIG annually supervises independent external financial statement audits by such contractors as Pricewaterhouse Coopers. OIG also benchmarks payment accuracy performance measures for the OASDI and SSI programs.

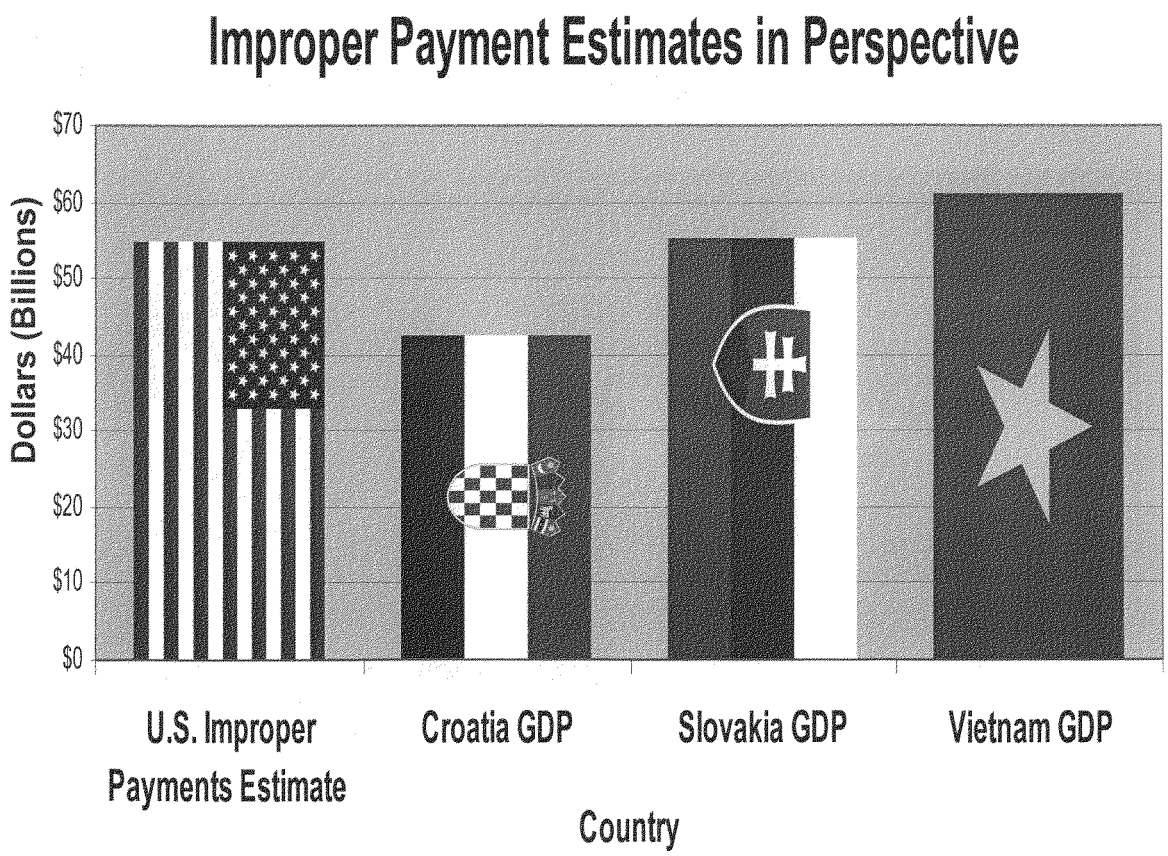
Other recent audits have focused on determining SSA accuracy in the administration of underpayments, critical payments, payments to organizational representative payees, cross program recovery, and administrative wage garnishment.

It should be noted that there are impediments to implementing some OIG recommendations. We lack sufficient resources to develop policy and implement procedures based on the recommendations. OIG recommendations can require labor-intensive manual processes at a time when the Agency is striving to streamline policies and procedures to meet increased workloads with reduced staffing levels.

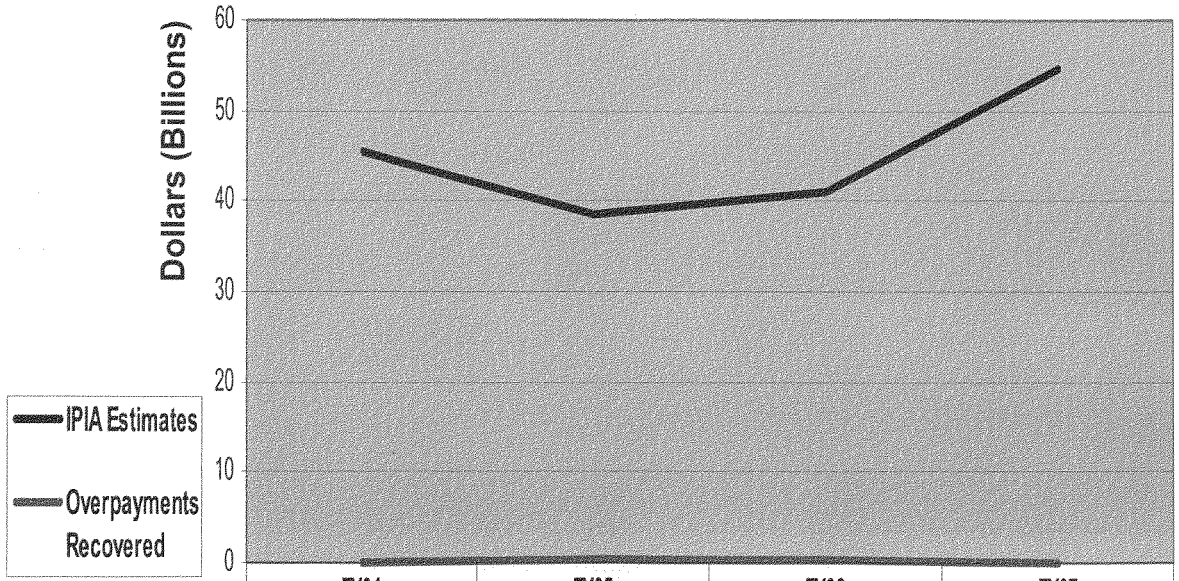
Congress can help SSA's efforts to reduce improper payments by fully supporting the President's FY 2009 budget for program integrity. The budget request includes $504 million ($264 million in the base and a discretionary cap adjustment of $240 million) to fund additional continuing disability reviews (CDR) and SSI non-medical redeterminations of eligibility. CDRs have a history of providing a lifetime program savings of approximately $10 for every $1 spent processing them. The Office of the Chief Actuary estimates that SSI redeterminations generate lifetime program savings of approximately $10 for every $1 spent above our baseline workload.

The $504 million will allow SSA to process a total of 329,000 medical CDRs and almost 1.5 million SSI redeterminations, for an estimated 10-year program savings of more than $4 billion.

Improper Payment Estimates in Perspective

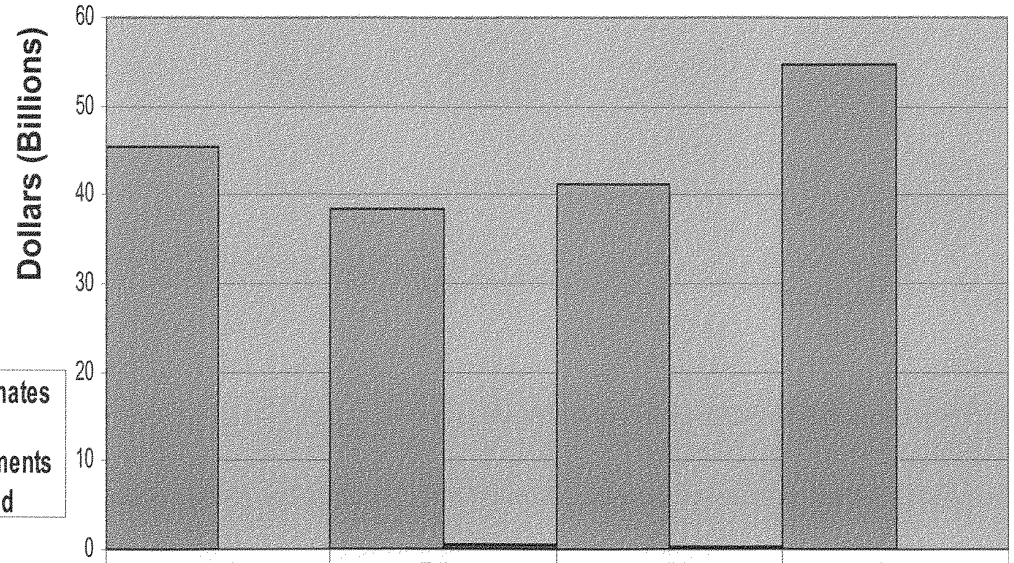

Improper Payment Estimates in Perspective
Dollars (Billions)
$70
$60
$50
$40
$30
$20
$10
$0
U.S. Improper Payments Estimate
Croatia GDP
Slovakia GDP
Vietnam GDP
Country

IPIA Estimates versus Overpayments Recovered



	FY04	FY05	FY06	FY07
IPIA Estimates	45,400,000,000	38,400,000,000	41,100,000,000	54,700,000,000
Overpayments Recovered	52,700,000	467,900,000	249,800,000	86,900,000

IPIA Estimates versus Overpayments Recovered



	FY04	FY05	FY06	FY07
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