



Office of Management and Budget

**Improving
the Accuracy and Integrity of
Federal Payments**

February 2, 2006

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I. Executive Summary

During fiscal year (FY) 2005, the Federal Government made substantial progress in meeting the President's goal to eliminate improper payments. Most significantly, the government-wide improper payment total reported last year decreased from \$45.1 billion to \$37.3 billion, a reduction of approximately \$7.8 billion (or 17%). With this result, the Federal Government exceeded its FY 2005 strategic goal for improper payment eliminations by \$5 billion.

Much of the success this past year can be attributed to the President's Management Agenda (PMA) initiative to eliminate improper payments, which provided an effective accountability framework for ensuring that Federal agencies initiate all necessary financial management improvements and corrective actions to ensure payment accuracy. Specifically:

- The Department of Health and Human Services (HHS) dramatically improved its stewardship of Medicare funds by taking aggressive steps to ensure that the necessary documentation was in place to support payment claims. As a result, Medicare's reported improper payments decreased by more than \$9 billion or 44%.
- The Department of Agriculture (USDA) stepped up efforts to reduce improper payments in the Food Stamp program by simplifying program administration and working with States to ensure that more quality control checks are in place. As a result, USDA reported an error rate of less than 6% in the Food Stamp program, the lowest error rate in the program's history.
- The Department of Labor (DOL) continued to expand its data matching program for the Unemployment Insurance (UI) program, ensuring that individuals who have returned to work do not continue to receive benefits they are no longer eligible to receive. As a result, DOL reduced improper UI payments by approximately \$600 million in FY 2005. This represents a greater than 15% decrease in the error rate for this program since last year's reporting.
- The Department of Housing and Urban Development (HUD) continued to expand and strengthen its income verification program for the Public Housing/Rental Assistance program. As a result, HUD has reduced improper payments in this program by more than \$1.8 billion since 2000, with an additional \$200 million in reductions reported in FY 2005.
- The Treasury Department continued to implement a variety of corrective actions for the Earned Income Tax Credit (EITC) program, including targeted audits and outreach to clarify eligibility requirements. The improper payment dollar amount remains high at a range of \$9.6 billion to \$11.4 billion. Similarly, the Social Security Administration (SSA), despite expansion of its data matching programs, experienced close to a \$2 billion increase in its improper payment estimates for Old Age, Survivor, and Disability Insurance (OASDI) and Supplemental Security Income programs. A large portion of the

increases for these three programs is due to outlay growth. In fact, the error rates for these programs have remained stable over time.

- Of the 15 agencies participating in the Eliminating Improper Payments PMA initiative, 12 agencies have, at a minimum, achieved “yellow” status, meaning that each of those agencies are actively implementing sound improper payment measurement and corrective action plans. Four of these agencies (i.e., HUD, DOL, the Department of Veterans Affairs (VA), and the National Science Foundation) have gone beyond yellow to achieve “green” status, having demonstrated that improper payment reduction and recovery targets are being met.

The Administration’s ongoing efforts to eliminate the \$45 billion in improper payments identified in last year’s report represent “Phase 1” of the PMA initiative and the Federal Government’s coordinated effort to comply with the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300). As noted in the Table below, seven programs continue to comprise a majority of the Phase 1 improper payment total.

Improper Payments Reported in FY 2005
(\$ in billions)

Program	\$ Amount	Percent of Total
Medicare	12.1	32%
Earned Income Tax Credit	\$9.6 to \$11.4	28%
Old-Age, Survivors, and Disability Insurance	3.7	10%
Unemployment Insurance	3.3	9%
Supplemental Security Income	2.9	8%
Public Housing/Rental Assistance	1.5	4%
Food Stamps	1.4	4%
<i>Subtotal</i>	35.4	95%
Other Programs Reported in FY 2004 baseline	1.9	5%
TOTAL	37.3	100%

Significant progress has been made in reducing improper payments in Medicare, UI, Public Housing/Rental Assistance, and Food Stamps. However, improper payment estimate totals remained high for EITC, OASDI, and SSI. Ensuring that all seven of these programs demonstrate continuous reductions in improper payments will be a central focus of the Administration’s improper payment efforts. In fact, the Federal Government-wide improper payment rate for all programs in Phase I is expected to continue to decrease in future years, based on agency-established reduction targets. Specifically, the overall improper payment rate of 3.9% in FY 2004 declined to 3.1% in FY 2005. This rate is expected to decline further to 3.0% in FY 2006 and 2.9% in FY 2007.

The Federal Government expanded its improper payment effort in FY 2005 and is now able to report improper payment measurements for 17 additional programs. The new improper payments reported for these programs in FY 2005 totaled approximately \$1.2 billion. The

Administration's effort to eliminate these newly identified improper payments represents "Phase II" of the PMA initiative and the Federal Government's IPIA compliance effort. Agencies are implementing corrective actions for Phase 2 improper payments, with approximately \$80 million in reductions expected when the total is reported next year.

A third phase of the government's effort will be defined when improper payment measurements are available for the Medicaid, School Lunch, and other remaining programs where measurements are currently under development. This demonstrates the Administration's commitment to expanding its reporting, in order that all risk susceptible programs report an annual measurement of improper payments.

With agencies working to deploy more innovative and sophisticated approaches for addressing improper payments, the prospects for additional and significant improper payment reductions in the coming years are promising. The Chief Financial Officers Council continues to play a critical role in these efforts by ensuring that agency best practices, such as those employed by HHS in the Medicare program, are disseminated and utilized at other agencies. In addition, the Administration continues to pursue an aggressive legislative agenda in the improper payments arena, with a series of program integrity reforms included in the President's FY 2007 Budget. If enacted, these proposals are projected to generate more than \$12 billion in savings over 10 years, leading to significant decreases in the government-wide improper payment total.

II. INTRODUCTION

The President's Management Agenda (PMA) strives to instill first class financial management practices in departments and agencies throughout the Executive Branch. Such efforts ensure that taxpayer dollars are spent wisely and efficiently, appropriately accounted for, and protected from fraud or misuse. To advance these important objectives, the Administration has made the elimination of improper payments a major focus of the PMA. An improper payment occurs when Federal funds go to the wrong recipient, the recipient receives the incorrect amount of funds, or the recipient uses the funds in an improper manner.

Since 2000, Federal agencies have reported efforts to reduce improper payments through the Office of Management and Budget's (OMB) Circular A-11, Section 57. This reporting requirement focused on 40 to 45 of the largest Federal programs, accounting for approximately half of all Federal outlays. With the passage and signing of the Improper Payments Information Act (IPIA) of 2002 (Public Law 107-300), as implemented through OMB guidance, the President and Congress have created a permanent framework for assessing every Federal program and dollar for risk of improper payments, annually measuring the accuracy of payments, and initiating program improvements to ensure that payment errors and improprieties are reduced and ultimately eliminated.

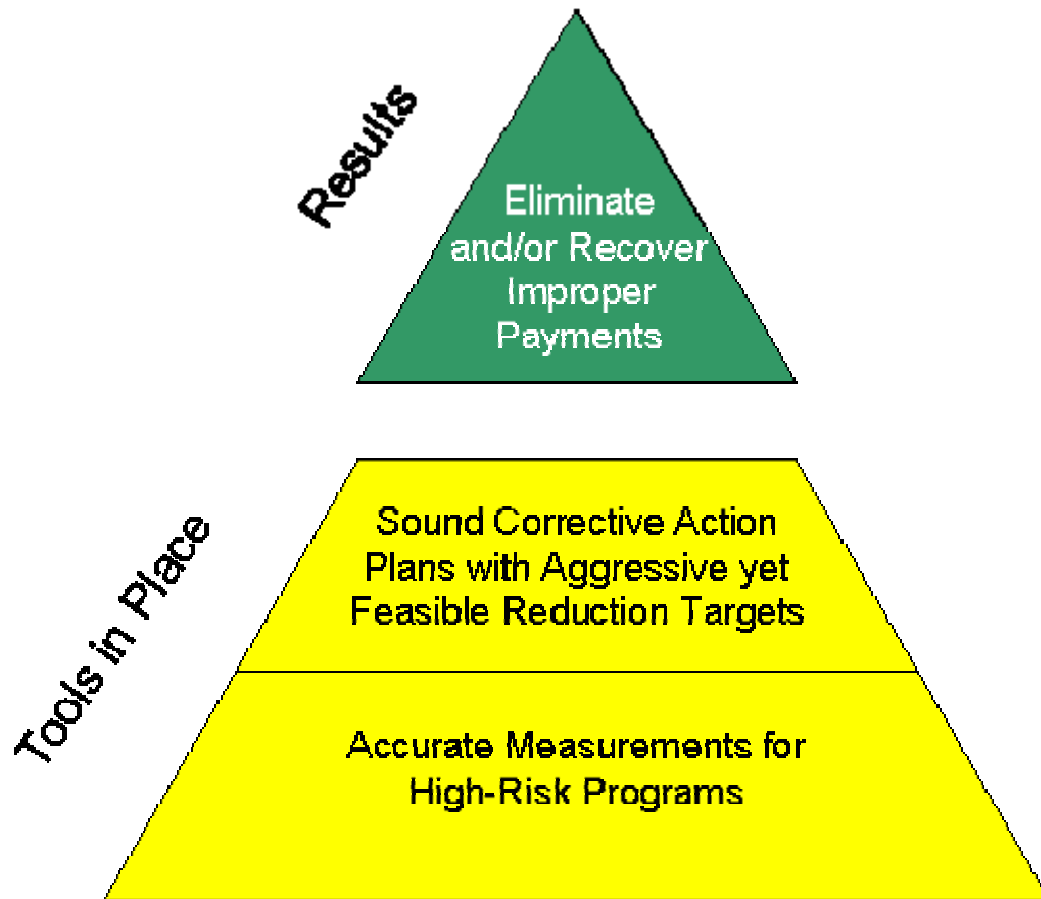
Pursuant to the IPIA, OMB issued implementing guidance in May of 2003. OMB Memorandum 03-13 (M-03-13) requires agencies, beginning in Fiscal Year (FY) 2004, to take the following steps to comply with law:

- Risk Assessments. Agencies are required to review all programs and activities and identify those that are risk susceptible to significant improper payments. A program or activity with significant improper payments is one where improper payments exceed both \$10 million and 2.5% of program payments on an annual basis. Notably, all programs listed in Section 57 of OMB Circular A-11 are automatically deemed to be risk susceptible to significant improper payments.
- Statistical Estimates. Agencies are required to develop a statistically valid estimate of improper payments for all programs and activities identified as susceptible to significant improper payments in the risk assessment. The statistical estimate must be based on a sample size sufficient to yield an estimate with a 90% confidence interval, plus or minus 2.5%.
- Corrective Action Plans. For all programs where the statistical estimate exceeds \$10 million in annual improper payments, agencies are required to develop a remediation plan for eliminating improper payments. The remediation plan must contain annual targets for reducing improper payment levels.
- Reporting. Agencies are required to report the results of IPIA activities on an annual basis in their Performance and Accountability Report (PAR).

During FY 2004 and FY 2005, as agencies worked to meet IPIA requirements, the Administration took steps to facilitate agency efforts. OMB announced a new PMA program initiative beginning in the first quarter of FY 2005 entitled Eliminating Improper Payments. Previously, agency efforts to eliminate improper payments were tracked along with other financial management activities through the Improving Financial Performance initiative. By dedicating a separate initiative to improper payments, the Administration is ensuring that agency managers are held accountable for meeting the goals of the IPIA and are therefore dedicating the necessary attention and resources to meeting IPIA requirements.

As depicted in Figure 1 below, the critical milestones of the PMA initiative can be broken down into two stages – (i) agencies putting the tools in place for measuring and addressing improper payments (the “yellow” standard); and (ii) agencies achieving results through reduced improper payments and, where appropriate, increased recoveries (the “green” standard).

Figure 1: Getting to Green on Improper Payments



Of the fifteen agencies participating in the Eliminating Improper Payments PMA initiative, 12 agencies have, at a minimum, achieved “yellow” status, meaning that each of those agencies are actively implementing sound improper payment measurement and corrective action

plans. Those agencies include the Departments of Agriculture (USDA), Defense (DoD), Education (ED), Homeland Security (DHS), Housing and Urban Development (HUD), Labor (DOL), Veterans Affairs (VA), as well as the Environmental Protection Agency (EPA), the National Science Foundation (NSF), the Office of Personnel Management (OPM), the Small Business Administration (SBA), and the Social Security Administration (SSA). Four of these agencies — HUD, DOL, NSF, and VA — have achieved “green” status, by demonstrating that improper payment reduction and recovery targets are being met.

In addition, the CFO Council’s Working Group on Improper Payments is advancing the goals of the IPIA by disseminating best practices for measuring and reducing improper payments and ensuring that Federal agencies have access to commercial solutions. Specifically, the Working Group sponsored a series of “Industry Days” where agencies and vendors successfully explored opportunities for partnering on improper payments efforts. The Working Group, now known as the CFO Council’s Improper Payments Transformation Team, is also working with OMB to evaluate potential revisions to OMB implementing guidance M-03-13 that will better ensure that agencies have the tools and flexibility needed to get the best return for taxpayers in improper payment reduction efforts.

Agency-specific reporting of improper payments for FY 2005 is provided in agency PARs (typically available on agency websites). This Report aggregates the results of the agency-specific reports, highlighting accomplishments and remaining challenges.

III. FISCAL YEAR 2005 FINDINGS

As required by the IPIA, the Recovery Auditing Act, and associated OMB guidance, agencies built on the foundation of baseline activities completed in FY 2004 by updating risk assessments on all Federal outlays and annual improper payment measurements on programs deemed risk susceptible for improper payments, initiating corrective action plans, and implemented recovery audit efforts for improper payments to vendors.

In order to provide transparency in the government’s progress on eliminating improper payments, newly identified improper payments will be tracked separately from those reported in the FY 2004 baseline. To this end, and for the purposes of this Report, progress on eliminating the \$45.1 billion in improper payments identified in FY 2004 will be referred to as “Phase 1,” while new improper payments identified in FY 2005 will be referred to as “Phase 2.” A third phase will be added when improper payment measurements are available for the Medicaid, School Lunch, and other remaining programs where measurements are currently under development.

FY 2005 Risk Assessments and Statistical Sampling

- Federal agencies completed a risk assessment of all programs and dollars spent, determining that nearly 60% of government outlays for FY 2005 (or \$1.5 trillion out of \$2.5 trillion) were risk susceptible for a significant level of improper payments.

- The remaining \$1.0 trillion (approximately) that was deemed not to be risk susceptible is made up of compensation (\$168 billion), contractual services (\$659 billion), and net interest on the public debt (\$183 billion.)
- Federal agencies were able to establish improper payment rates (and amounts) for programs that account for approximately 85% of risk susceptible dollars. Specifically, of the \$1.5 trillion in risk susceptible outlays, improper payment rates are reported on programs that total \$1.3 trillion of those outlays. Once the Medicaid program begins reporting an improper payment measurement (anticipated for the FY 2007 PAR), the government will be able to report for programs that comprise more than 95% of risk susceptible dollars.

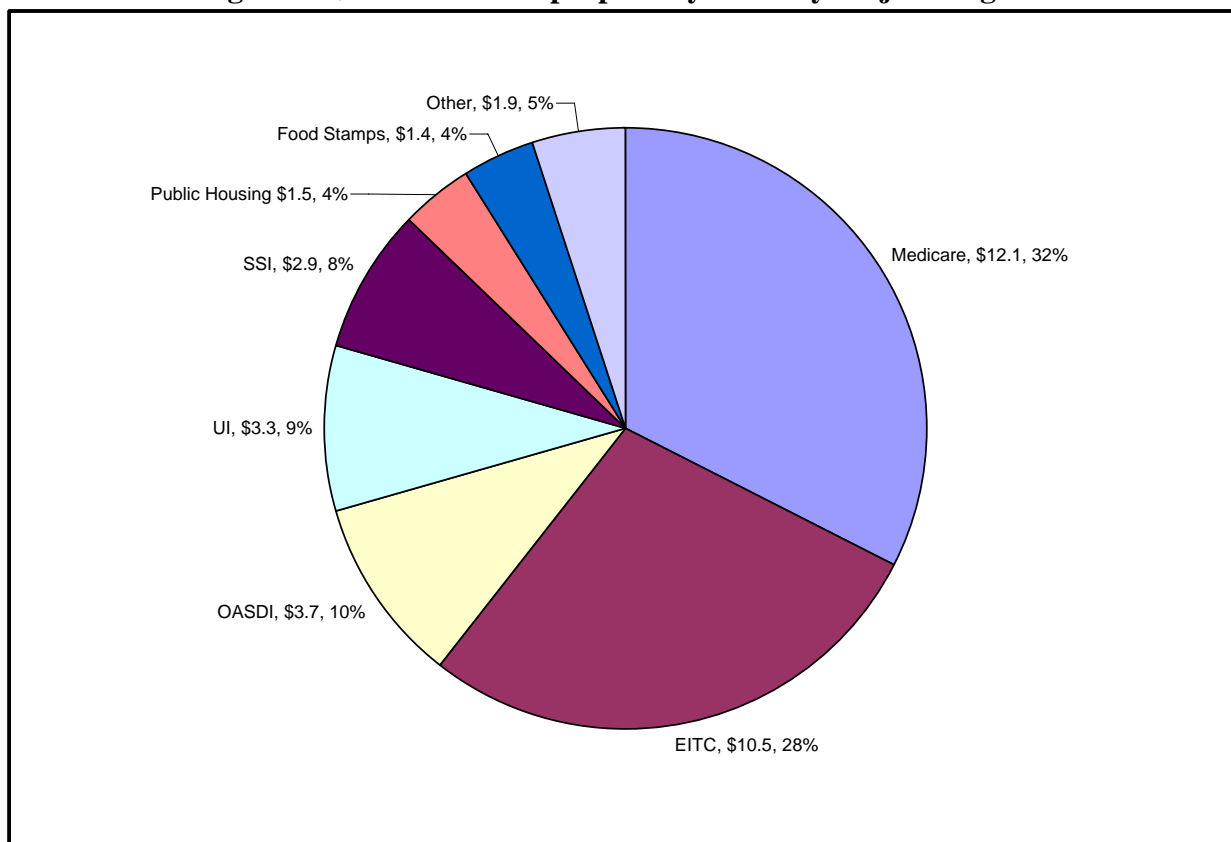
Eliminating Improper Payments Reported in the FY 2004 Baseline (Phase 1)

- During FY 2005, the Federal Government made substantial progress in meeting the President's goal to eliminate improper payments. Most significantly, the government-wide improper payments total reported last year decreased from \$45.1 billion to \$37.3 billion, a reduction of approximately \$7.8 billion (or 17%.) With this result, the Federal Government exceeded its FY 2005 strategic goal for improper payment eliminations by \$5 billion. (See Table 2 of the Appendix to this Report.)
- The government-wide improper payment rate dropped from 3.9% in FY 2004 to 3.1% for FY 2005.
- Approximately 90% of improper payments are overpayments in comparison to 92% reported for FY 2004. (See Table 4 of the Appendix to this Report.)
- Similar to the results reported last year, and as shown in below in Figure 2, seven programs account for approximately 95% of the reported improper payment total for FY 2005.

(i) Medicare/HHS. The Medicare program, government-sponsored health insurance for America's seniors and disabled citizens, is the second largest Federal benefit program representing approximately \$300 billion in outlays in FY 2005. HHS reported \$12.1 billion in improper payments in the Fee-for-Service portion of the program in FY 2005, a \$9.6 billion reduction from the \$21.7 billion level reported in FY 2004. This result was achieved through aggressive steps to ensure that the necessary documentation was provided to support payment claims.

To address other sources of error in the program (e.g., incorrect dollar amounts charged by and/or paid to physicians and diagnostic and procedure coding errors), HHS is actively implementing additional corrective actions. Most notably, HHS is reforming its contracting approach with commercial-based claims processors to provide enhanced financial incentives that reward payment accuracy and sanction payment errors.

Figure 2: \$37.3 Billion Improper Payments by Major Program



(ii) Earned Income Tax Credit (EITC)/Treasury Department. This program provides a tax credit to low income citizens and is one of the largest Federal programs helping America’s poor. Eligibility for the credit is based on income level, filing status, and number of dependents. In FY 2005, the program reported an improper payment amount ranging from \$9.6 billion to \$11.4 billion (or a 23% to 28% improper payment rate). This estimate is a projection based on the most recent EITC error study from tax year 2001, and represents an approximate \$847 million increase in improper payments from the level reported in FY 2004.

The three most significant causes of error in the program are: (i) Qualifying Child – whether the child lives with the individual claiming the credit and passes the “relationship test;” (ii) Filing Status of the Taxpayer – whether the individual claiming the credit has properly filed as single/head of household versus married; and (iii) Underreporting of Income – whether the individual claiming the credit has properly stated his/her income.

The Treasury Department continues to pursue a variety of corrective actions to address the significant level of improper payments in the program, including training and education to preparers and automated corrections of math errors on eligibility documentation. Notably, the Treasury Department continuously evaluates the relative

effectiveness of its due diligence activities and shifts resources to emphasize efforts that have the greatest impact on compliance and payment accuracy. Despite these administrative efforts, the EITC program continues to operate with an unacceptably high improper payment rate. The Treasury Department is now researching the effectiveness of certification requirements for childhood residency as well as expanding its tracking of recipients of improper payments from prior years. In addition, the President's FY 2007 Budget proposes several legislative reforms that will complement ongoing administrative and process improvements, facilitating additional improper payment eliminations. (See Section V of this Report for additional detail on proposed legislative changes related to the EITC program).

(iii) Old Age, Survivors and Disability Insurance (OASDI)/SSA. The OASDI program – the largest entitlement program in the Federal Government with nearly \$500 billion in annual outlays – provides benefits to retirees, disabled persons, and their surviving spouses and/or minor children. Despite an extremely low error rate of 0.74% reported in FY 2005, there were \$3.7 billion in improper payments due to the significant amount of payments made. This represents an approximate \$2 billion increase in the improper payments estimate from the level reported in FY 2004. Payment errors are largely the result of recipient failure to report changes in income, household composition, or other income-related items. SSA plans additional expansions of its data matching and other internal control processes to ensure that SSA obtains timely information on changes in beneficiary status and that it utilizes such information to adjust payments before they are made.

(iv) Unemployment Insurance (UI)/DOL. The UI program is a Federal-State partnership. The States provide unemployment benefits to eligible workers who become unemployed and meet certain other eligibility requirements, paying for these benefits out for State-levied unemployment taxes. The Federal Government provides grants to States to cover the program's administrative costs. The largest single cause of improper payments in this program continues to be payments received by claimants who have returned to work but continue to claim benefits. DOL has focused on providing new tools for the States that will allow earlier identification of those claimants who have returned to work. In addition to States continuing to use their State new hire directories, States now have access to the National Directory of New Hires (NDNH). DOL has also helped the States to conduct data matches with the Social Security Administration to prevent and detect improper payments resulting from fraudulent or mistaken use of social security numbers. The President's FY 2007 Budget proposes additional legislative changes that would provide more accurate information in the NDNH on the date work started which prevents improper payments to claimants who have returned to work. These reforms would allow States to use a portion of the overpayment recoveries to pay private collection agencies, as well as retain a portion of the recoveries to fund further program integrity efforts. (See Section V of this Report for additional detail on proposed legislative changes related to the UI program).

(v) Supplemental Security Income (SSI)/SSA. SSI Benefits from this program go to low-income elderly and disabled persons. The program reported \$2.9 billion in estimated improper payments in FY 2005, an increase of \$200 million from the \$2.7 billion improper payment estimate reported in FY 2004. The main causes for payment errors in this program are incorrect records of beneficiaries' wages and beneficiaries having assets that make them ineligible for benefits. Benefit levels depend on an individual's income. If an individual does not report changes in monthly wages and/or SSA does not process the reported information promptly, improper payments will be made. In order to reduce improper payments in this program, SSA is pursuing a number of corrective actions, including automated data matches with banks and other financial institutions.

(vi) Public Housing/Rental Assistance/HUD. HUD became the first agency to achieve green status on the Eliminating Improper Payments scorecard at the end of the third quarter of FY 2005. Prior to the enactment of the IPIA, HUD had established an improper payments reduction program for its various rental housing assistance programs – including Public Housing, Section 8 Tenant-Based Assistance and Multifamily Housing Project-Based Assistance. These programs are administered by over 26,000 public housing agencies (PHAs) and multifamily housing owners or management agents on HUD's behalf. In general, the program benefits paid represent the difference between 30 percent of an eligible household's adjusted income and the balance of the housing operating costs or an established rent level. HUD reported a 5.6% improper payment rate in FY 2005 for these programs or a total improper payment amount of \$1.5 billion. This represents a \$200 million reduction from the level reported last year, and a total of \$1.8 billion in improper payment reductions since 2000. Key causes of error include: the program administrator's failure to properly apply income exclusions and deductions to correctly determine income, rent and subsidy levels; the tenant beneficiary's failure to properly disclose all income sources; and errors in the billing and payment of HUD subsidies. Through corrective action plans, such as computer matching with State wage and other income data sources, HUD anticipates further reductions in improper payments in future years.

(vii) Food Stamp Program/USDA. The goal of the Food Stamp program is to reduce hunger and improve the nutrition of the neediest of our citizens. Recipients receive electronic benefits redeemable for food at authorized grocery stores, markets, and similar establishments. Errors occur when recipients report incorrect information and when state agencies make mistakes in implementing program rules. USDA has successfully implemented the use of an electronic benefits transfer card that reduces the risk of fraudulent use or theft. In FY 2005, the program reported a 5.88% improper payment rate, the lowest payment error rate in the history of the program. The record reductions achieved in FY 2005 are a result of USDA's efforts to simplify program rules as well as continuing to hold States accountable for their error rates through rigorous Quality Control (QC) programs. A State with a high error rate must develop a QC corrective action plan to address deficiencies revealed through an analysis of its own quality control data. In addition, a State with an excessive error rate will be required to invest a specified amount of resources designated specifically to correct and lower its error rate. The State will also face further financial penalties if it fails to lower its error rate in a

future fiscal year. USDA expects these activities to generate additional improper payment reductions in future years.

New Improper Payments Identified Under the IPIA in FY 2005 (Phase 2)

- Agencies demonstrated significant improvements in error detection and measurement, providing improper payment data on programs for which no improper payment statistics had been available in the past.
- New improper payments estimates were provided on 17 programs this year, including, Foster Care (HHS); Market Loan Assistance, Milk Income Loss Program, Loan Deficiency Payments, Wildland Fire Suppression Management, Rental Assistance, and Farm Security and Rural Investment Programs (USDA); Title I, Federal Family Education Loan Program (Education Department); Loan Guaranty program, Vocational Rehabilitation (VA); Military Pay (DOD); the Workforce Investment Act (DOL); the 7(a) Guaranty Purchase Loan Program (SBA); Retirement and Survivor Benefits and Railroad Unemployment Insurance Benefits (Railroad Retirement Board); and, commercial payments in the Tennessee Valley Authority (TVA.) TVA also reported on its recovery auditing findings for FY 2005.
- The improper payments dollars for the additional programs reported in FY 2005 total approximately \$1.2 billion. Agencies are actively implementing corrective action plans for these programs and expect to reduce the current total by approximately \$80 million next year. (See Table 6 of the Appendix to this Report.)

Improper Payments to Vendors Identified and Recovered under the Recovery Audit Act

- In FY 2005, agencies reviewed a total of just more than \$316 billion in outlays to vendors, and identified approximately \$888 million in improper payments. (See Table 7 of the Appendix to this Report.)
- Of the \$888 million in improper vendor payments, agencies recovered \$656 million. Approximately \$205 million is pending resolution, with the remainder either still in dispute or deemed unrecoverable. This demonstrates an improper payment recovery rate of 74%. Moreover, assuming the \$205 million still pending is recovered, the result would be an overall recovery rate of nearly 97%.

IV. OUTLOOK FOR FISCAL YEAR 2006 AND BEYOND

The Federal Government is making significant progress on its roadmap toward eliminating improper payments. In FY 2006 and beyond, the Federal Government will continue along its current path, focusing efforts on additional improper payment eliminations, continuing to close all reporting gaps, and honing corrective actions to ensure that resources are expended on those efforts with the greatest impact on payment accuracy.

A critical part of agency compliance with the IPIA is the establishment of corrective action plans and future year targets for improved performance in reducing improper payments. The targets reflect the reduction in improper payments the agency believes it can achieve, accounting for process and internal control improvements, resource constraints, and other relevant factors.

Expected Improper Payments Reductions (Phase 1)

In the baseline year of FY 2004, improper payments totaled \$45.1 billion with Federal agencies establishing government-wide reduction targets of \$2.8 billion in FY 2005, \$3.1 billion in FY 2006, and \$6.4 billion in FY 2007.¹ As noted in Section III above, the Federal Government exceeded its FY 2005 reduction target by \$5 billion, thereby meeting the reduction targets established for FY 2006 and 2007 as well.

Despite achieving these goals earlier than expected, the Federal Government is now committed to reducing the incidence of improper payments even further in the coming years. Based on projections provided in Table 3 of the Appendix to this Report, the government-wide improper payment rate will continue to decline:

- 3.9% reported in FY 2004
- 3.1% reported in FY 2005
- 3.0% expected in FY 2006
- 2.9% expected in FY 2007

Achieving these improper payment rate reductions is critically important in light of the significant increases in Federal outlays that are expected in the coming years. As an illustration, Medicare Fee-for-Service payments are expected to increase from \$234 billion in FY 2005 to approximately \$240 billion in FY 2006, a 2.6% increase. As a result, even if HHS maintains the same error rate in FY 2006 that was achieved this past year (5.2%), the amount of improper payment dollars would increase by more than \$300 million. Even more notable, if Medicare were to lose ground and return to the 10% improper payment rate that existed last year, the improper payment dollar amount in FY 2006 would be more than \$12 billion higher than the level expected if Medicare can maintain or improve today's improper payment rate.

The effect of increasing outlays has similar implications for the government-wide improper payment total. The FY 05 outlays associated with Phase 1 programs are expected to increase by 2.7% in FY 2006. As a result, if the Federal Government as a whole maintains the same error rate in FY 2006 that was achieved this past year (3.1%), the amount of improper payment dollars would increase by approximately \$3.0 billion. Moreover, if the Federal

¹ The reduction targets reported in last year's report – \$4.9 billion in FY 2005, \$8.1 billion in FY 2006, and \$12.3 billion in FY 2007 – did not account for expected outlay increases in Federal programs. In other words, the reduction targets were established by applying the improved error rate expected in future years to the FY 2004 outlay total. Subsequent to publishing last year's report, OMB worked with agencies to re-calculate the reduction targets so that the improved error rate expected in future years would be applied to the estimated outlay total of that future year.

Government were to lose ground and return to the 3.9% improper payment rate that existed last year, the improper payment dollar amount in FY 2006 would be more than \$11 billion higher than the level expected if the Federal Government maintains or improves on this year's improper payment rate.

Expected Improper Payments Reductions (Phase 2)

For the 17 additional programs where improper payments were identified in FY 2005 for the first time, improper payments totaled \$1.2 billion (or a 0.9% improper payment rate). Based on projections provided in Table 6 of the Appendix to this Report, the Phase II total is expected to decrease by approximately \$80 million.

Planned Reporting Improvements (Phase 3)

The Administration remains committed to enhancing reporting so that all risk susceptible programs report an annual measurement of improper payments and programs that currently report an improper payment measurement are capturing all relevant sources of error. As noted above, agencies in FY 2005 reported an improper payment measurement for more than 85% of risk susceptible dollars. A few key risk susceptible programs without a current measurement comprise the balance including Medicaid, National School Lunch/Breakfast Program, and Special Supplemental Nutrition Program for Women Infants and Children (WIC). (See Table 5 of the Appendix to this Report.) The absence of an improper payment measurement is due in large part to the size and complexity of these programs, as well as resource and timing constraints.

For Medicaid, an error measurement for the fee-for-service component the program is anticipated in the FY 2007 PAR, with a comprehensive error measurement to be reported in the FY 2008 PAR. To achieve this, HHS is working closely with State officials responsible for administering Medicaid programs to develop cost effective approaches for completing measurement activities.

Additionally, USDA's School Lunch/Breakfast program will be reporting a study based on 2005-2006 school year data which will provide a nationally-representative estimate of payment errors to be reported in the FY 2007 PAR. Once a national error rate is reported, this measurement will provide critical information for many other agencies that depend upon this program's certifications for eligibility criteria. For example, local school districts, at the direction of the Education Department, use USDA's School Lunch program certifications data to determine within district allocations of Title I funds.

Finally, the Treasury Department completed and issued the National Research Program (NRP) in FY 2005 which provided a detailed assessment of compliance gaps in the nation's Federal income tax system. Taken as a whole, the compliance gaps described in the NRP amount to approximately \$300 billion in lost revenue to the Federal Government each year. The Treasury Department is pursuing a number of corrective actions and improvements to address the tax gap and is working to ensure that priorities for this effort reflect the best return on investment for the taxpayer. One finding that may have implications on the government-wide

effort to eliminate improper payments is the significant incidence of tax refund overpayments. Specifically, the Treasury Department determined that 13% of non-EITC refunds are paid incorrectly, which represents approximately \$24 billion annually. The Administration plans to work with Congress and other stakeholders to further evaluate how best to address tax refund overpayments, including whether such payments are covered by the requirements of the Improper Payments Information Act of 2002.

V. PROPOSED LEGISLATIVE REFORMS

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.

The President's FY 2007 Budget, therefore, contains a series of legislative reform proposals that are necessary to ensure greater program integrity and payment accuracy. These proposals, summarized below, would generate more than \$12 billion in savings over 10 years and have a significant impact on the government-wide improper payment total.

- UI Overpayment Recoveries – provides financial incentive to States to more aggressively pursue benefit overpayments, enlist debt collection agencies, 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 \$1.2 billion over ten years.
- EITC (and Child Tax Credit) – clarifies the uniform definition of child, simplifies the EITC eligibility rules, and reduces the computational complexity of the refundable child tax credit. If enacted, the proposal would save \$232 million in the first year and \$5 billion over ten years.
- OASDI – provides SSA 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 Disability Insurance and Worker's Compensation deductions. If enacted, the proposal would save \$8 million in the first year and \$2.8 billion over ten years.
- Food Stamps – provides State Food Stamp agencies access to the National Directory of New Hires as a means of verifying employment and income for eligibility determination. If enacted, the proposal would save \$4 million over five years, and \$9 million over ten years.
- Federal Employee Retirement System (FERS) – provides OPM and SSA with the authority to improve benefit coordination between FERS disability annuities and Social Security disability benefits when there is concurrent eligibility as well as a requirement for a partial offset between

the two benefits. This coordination would prevent large overpayments of retroactive Social Security benefits, which beneficiaries are frequently not in a position to repay. SSA would forward the retroactive benefits to OPM, who would then forward the net entitlement to the retiree, preventing an overpayment of the retroactive benefit. If enacted, the proposal would save \$2 million in the first year and \$45 million over ten years.

- *Education IRS Verification* – provides the Education Department with the authority to match reported income on student aid applicants with Internal Revenue Service data. This data matching authority would virtually eliminate longstanding incidences of fraud and error in the Pell Grant program. If enacted, the proposal would save \$300 million in the first year, and \$3 billion over ten years.

There are additional legislative proposals in the FY 2007 President's Budget that do not project scorable savings, but are critical to the Federal Government's efforts to eliminate improper payments. Most notably, the Budget proposes adjustments for spending above a base level of funding within discretionary levels (or "cap adjustments") that provide needed resources for administrative program integrity efforts in Medicare, Medicaid, UI, SSI, and OASDI. Such funds should not be subject to discretionary spending caps, as they generate program efficiencies that result in a positive return on investment for taxpayers.

VI. CONCLUSION

Over the past two years, the Federal Government has made tremendous progress toward meeting the President's goal to eliminate improper payments. In FY 2004, Federal agencies established a strong foundation for annually measuring improper payments, identifying and implementing the necessary corrective actions, and tracking success over time. In FY 2005, the Federal Government demonstrated significant results in all facets of the initiative, reducing the government-wide improper payment total by 17%, closing the reporting gap by providing improper payment measurements for 17 high risk programs for which no data had been available in the past, and expanding and strengthening corrective actions by collaborating with other Federal agencies, state and local governments, and the private sector.

Moving forward, the Administration expects the government-wide improper payment rate to continue to decline as agencies deploy more innovative and sophisticated approaches for addressing improper payments. In addition, the Administration will pursue an aggressive legislative agenda to strengthen program integrity and provide Federal managers with the additional tools for addressing the critically important initiative.

The PMA will continue to play an integral role in these efforts, holding agencies accountable for additional improper payment eliminations, for closing all reporting gaps, and for honing corrective actions to ensure that resources are expended on those efforts with the greatest impact on payment accuracy. As a direct result, the elimination of improper payments will remain a top priority of the Administration, government managers, and the entire Federal financial management community.

Table 1: Risk-Susceptible Program Outlays
(Dollar amounts in millions)

<u>Department or Agency</u>	<u>FY 2005 (est.) Outlays (\$)</u>	<u>Percentage (%) of Agency Total</u>
Department of Agriculture		
Food Stamps	\$ 24,358	28.6%
National School Lunch/Breakfast Program	8,187	9.6%
Special Supplemental Nutrition Program for Women, Infants, and Children	4,812	5.7%
Federal Crop Insurance Program	3,170	3.7%
Child and Adult Food Program	2,061	2.4%
Risk Total	<u>42,588</u>	<u>50.0%</u>
Non-Risk Total	<u>42,541</u>	<u>50.0%</u>
Outlay Total	<u>85,129</u>	<u>100.0%</u>
Department of Defense		
Military Retiree Benefits	\$ 35,700	7.5%
Military Health Benefits	7,500	1.6%
Risk Total	<u>43,200</u>	<u>9.1%</u>
Non-Risk Total	<u>431,236</u>	<u>90.9%</u>
Outlay Total	<u>474,436</u>	<u>100.0%</u>
Department of Education		
Pell Grants	\$ 12,602	17.3%
Risk Total	<u>12,602</u>	<u>17.3%</u>
Non-Risk Total	<u>60,342</u>	<u>82.7%</u>
Outlay Total	<u>72,944</u>	<u>100.0%</u>

Table 1: Risk-Susceptible Program Outlays
(Dollar amounts in millions)

<u>Department or Agency</u>	<u>FY 2005 (est.) Outlays (\$)</u>	<u>Percentage (%) of Agency Total</u>
Department of Health and Human Services		
Medicare	\$ 234,100	40.3%
Medicaid	181,719	31.3%
Temporary Assistance for Needy Families	17,401	3.0%
HeadStart	6,865	1.2%
Child Care and Development Fund	4,901	0.8%
State Children's Health Insurance Program	5,129	0.9%
Risk Total	<u>450,115</u>	<u>77.4%</u>
Non-Risk Total	<u>131,377</u>	<u>22.6%</u>
Outlay Total	<u>581,492</u>	<u>100.0%</u>
Department of Homeland Security		
Risk Total		
Non-Risk Total	\$ <u>39,907</u>	<u>100.0%</u>
Outlay Total	<u>39,307</u>	<u>100.0%</u>
Department of Housing and Urban Development		
Public Housing/Rental Assistance	\$ 26,069	61.3%
Risk Total	<u>26,069</u>	<u>61.3%</u>
Non-Risk Total	<u>16,445</u>	<u>38.7%</u>
Outlay Total	<u>42,514</u>	<u>100.0%</u>
Department of Labor		
Unemployment Insurance	\$ 32,248	67.3%
Federal Employment Compensation Act	2,519	5.3%
Risk Total	<u>34,767</u>	<u>72.5%</u>
Non-Risk Total	<u>13,179</u>	<u>27.5%</u>
Outlay Total	<u>47,946</u>	<u>100.0%</u>

Table 1: Risk-Susceptible Program Outlays
(Dollar amounts in millions)

<u>Department or Agency</u>		<u>FY 2005 (est.) Outlays (\$)</u>	<u>Percentage (%) of Agency Total</u>
Department of Transportation			
Highway Planning/Construction Grants	\$	31,217	54.8%
Federal Transportation Formula Grants		4,521	7.9%
Airport Improvement Program		2,996	5.3%
Federal Transportation Capital Investment Grants		3,375	5.9%
	Risk Total	<u>42,109</u>	<u>74.0%</u>
	Non-Risk Total	<u>14,825</u>	<u>26.0%</u>
	Outlay Total	<u>56,934</u>	<u>100.0%</u>
Department of the Treasury (IRS only)			
Earned Income Tax Credit			
	Risk Total	\$ <u>41,300</u>	<u>72.8%</u>
	Non-Risk Total	<u>15,464</u>	<u>27.2%</u>
	Outlay Total	<u>56,764</u>	<u>100.0%</u>
Department of Veterans Affairs			
Compensation/Dependency & Indemnity	\$	26,300	37.6%
Pension		3,400	4.9%
Education		2,300	3.3%
Insurances		1,700	2.4%
	Risk Total	<u>33,700</u>	<u>48.1%</u>
	Non-Risk Total	<u>36,295</u>	<u>51.9%</u>
	Outlay Total	<u>69,995</u>	<u>100.0%</u>
Environmental Protection Agency			
Clean & Drinking Water State Revolving Funds			
	Risk Total	\$ <u>1,928</u>	<u>24.3%</u>
	Non-Risk Total	<u>5,990</u>	<u>75.7%</u>
	Outlay Total	<u>7,918</u>	<u>100.0%</u>

Table 1: Risk-Susceptible Program Outlays
(Dollar amounts in millions)

<u>Department or Agency</u>		<u>FY 2005 (est.) Outlays (\$)</u>	<u>Percentage (%) of Agency Total</u>
National Science Foundation			
Education/Research Grants	Risk Total	\$ 4,215	77.6%
	Non-Risk Total	1,217	22.4%
	Outlay Total	<u>5,432</u>	<u>100.0%</u>
Office of Personnel Management			
Federal Employees Retirement Program		\$ 55,612	62.6%
Federal Employee Health Benefit Programs		30,691	34.5%
Federal Employees Group Life Insurance Program		2,327	2.6%
	Risk Total	<u>88,630</u>	<u>99.7%</u>
	Non-Risk Total	<u>269</u>	<u>0.3%</u>
	Outlay Total	<u>88,899</u>	<u>100.0%</u>
Small Business Administration			
Small Business Investment Companies ¹		\$ 1,568	26.1%
Disaster Loans ¹		2,231	37.1%
(504) Certified Development Company Debentures ¹		118	2.0%
	Risk Total	<u>3,917</u>	<u>65.1%</u>
	Non-Risk Total	<u>2,100</u>	<u>34.9%</u>
	Total ²	<u>6,017</u>	<u>100.0%</u>

Table 1: Risk-Susceptible Program Outlays
(Dollar amounts in millions)

<u>Department or Agency</u>		<u>FY 2005 (est.) Outlays (\$)</u>	<u>Percentage (%) of Agency Total</u>
Social Security Administration			
Old-Age, Survivors, & Disability Insurance	\$	493,300	87.9%
Supplemental Security Income		37,470	6.7%
	Risk Total	<u>530,770</u>	<u>94.6%</u>
	Non-Risk Total	<u>30,554</u>	<u>5.4%</u>
	Outlay Total	<u>561,324</u>	<u>100.0%</u>
Total	Risk Total	\$ <u>1,355,910</u>	<u>54.8%</u>
	Risk Total (Phase II)	\$ <u>125,863</u>	<u>5.1%</u>
	G/W Risk Total	\$ <u>1,481,773</u>	<u>59.9%</u>
	Non-Risk Total	\$ <u>839,041</u>	<u>33.9%</u>
	Other Outlay Total	\$ <u>152,106</u>	<u>6.2%</u>
	Outlay Total ¹	\$ <u>2,472,920</u>	<u>100.0%</u>

¹The outlay amount shown for credit programs reflect disbursements for CDC, SBIC, and loan approval amounts for Disaster Assistance. The individual agency outlay totals and the overall outlay totals aggregate budget authority outlays for all programs.

²The actual outlay total for SBA is \$2.5 billion. The figure shown is the total of program disbursements, disaster loan approvals, S&E, and OIG.

**Table 2: Improper Payments Reported in FYs 2004 and 2005 PARs
by Program (Phase I)**
(Dollar amounts in millions)

<u>Department or Agency</u>	<u>FY 2004¹ Reported</u>		<u>FY 2005² Reported</u>	
	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
Department of Agriculture				
Food Stamps ³	\$ 1,613	6.64 %	\$ 1,432	5.88 %
Federal Crop Insurance Program	125	5.0	28	0.9
Department of Defense				
Military Retiree Benefits	\$ 34	0.10 %	\$ 49.3	0.14 %
Military Health Benefits	100	2.16	150	2.0
Department of Education				
Pell Grants	\$ 621	4.90 %	\$ 571	4.50 %
Department of Health and Human Services				
Medicare ^{3, 4}	\$ 21,705	10.10 %	\$ 12,100	5.20 %
HeadStart	255	3.9	110	1.6
Department of Housing and Urban Development				
Public Housing/Rental Assistance ³	\$ 1,707	6.90 %	\$ 1,467	5.60 %
Single Family Property Management Activity ^{3,5}	26	6.8	0.0	
Department of Labor				
Unemployment Insurance	\$ 3,861	10.34 %	\$ 3,267	10.13 %
Federal Employment Compensation Act	6.4	0.25	3.3	0.13
Department of Transportation				
Highway Planning/Construction Grants	\$ 0	0 %	\$ 0.0	0 %
Federal Transportation Formula Grants	0	0	0.0	0
Airport Improvement Program	0	0	0.0	0
Federal Transportation Capital Investment Grants	0	0	0.0	0

**Table 2: Improper Payments Reported in FYs 2004 and 2005 PARs
by Program (Phase I)**
(Dollar amounts in millions)

<u>Department or Agency</u>	<u>FY 2004¹ Reported</u>		<u>FY 2005² Reported</u>	
	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
Department of the Treasury				
Earned Income Tax Credit ⁶	See Note 6	See Note 6	See Note 6	See Note 6
Department of Veterans Affairs				
Compensation/Dependency & Indemnity ³	\$ 239	0.90 %	\$ 302	1.16 %
Pension ³	262	7.9	282	8.4
Education ³	55	2.4	70	3.0
Insurances ³	0.3	0.02	0.3	0.02
Environmental Protection Agency				
Clean & Drinking Water State Revolving Funds	\$ 10.3	0.49 %	\$ 3.1	0.16 %
National Science Foundation				
Education/Research Grants	\$ 44	0.93 %	\$ 1.1	0.02 %
Office of Personnel Management				
Federal Employee Retirement Programs	\$ 193	0.37 %	\$ 152.2	0.28 %
Federal Employee Health Benefit Programs	87	0.32	196.5	0.67
Federal Employee Life Insurance Programs	4.7	0.22	1.4	0.17
Small Business Administration				
Small Business Investment Centers	\$ 129	4.70 %	\$ 10.5	0.67 %
Disaster Assistance	1	0.13	1.6	0.07
(504) Certified Development Company Debentures	0	0	0.0	0

**Table 2: Improper Payments Reported in FYs 2004 and 2005 PARs
by Program (Phase I)**
(Dollar amounts in millions)

<u>Department or Agency</u>	<u>FY 2004¹ Reported</u>		<u>FY 2005² Reported</u>	
	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
Social Security Administration				
Old-Age, Survivors, & Disability Insurance ³	\$ 1,707	0.34 %	\$ 3,681	0.74 %
Supplemental Security Income ³	2,639	7.30	2,910	7.70
Phase I Reported FY 2004 - FY 2005	\$ <u>45,078</u>		\$ <u>37,289</u>	

¹This column represents the improper payment amount and rate reported by each agency in FY 2004. During the development of agency-specific IPIA reports, OMB requested that agencies report improper payments based on the most recently available data. In some cases the values reflect an evaluation of payments made in FY 2004, while in other cases the values reflect an evaluation of payments made in FY 2003.

²This column represents the improper payment amount and rate reported by each agency in FY 2005. During the development of agency-specific IPIA reports, OMB requested that agencies report improper payments based on the most recently available data. In some cases the values reflect an evaluation of payments made in FY 2005, while in other cases the values reflect an evaluation of payments made in FY 2004.

³The improper payment amount and rate reported in FY 2005 for these programs is based on a review of FY 2004 payments.

⁴The improper payment amount and rate shown for FY 2005 is based on a review of the estimated amount of paid claims for the Fee-for-Service portion of the Medicare program, not the estimated FY 2005 outlays.

⁵This program was assessed as no longer being risk susceptible based on the improper payment dollars and rate falling below \$10 million and 2.5% as a result of successful corrective actions.

⁶The National Research Project analysis based on tax year 2001 data was completed during FY 2005. For FY 2005 reporting purposes, because the data is from more than 3 years ago, the Treasury Department has "aged" the data to project current and outyear improper payment totals. Based on limitations with this approach, the Treasury Department reports a range, rather than a single point estimate. The relevant ranges are as follows: FY 2004 - \$8,668 million to \$10,638 million (22% to 27%); FY 2005 - \$9,600 million to \$11,400 million (23% to 28%); FY 2006 - \$9,800 million to \$11,600 million (23 to 28%); FY 2007 and FY 2008 - \$10,000 million to \$11,800 million. For the purposes of deriving government-wide totals, the midpoint of the EITC range is used.

Table 3: Phase I Improper Payments Projected for FY 06 - FY 08 as Reported in FY 2005 PARs
(Dollars shown in millions)

<u>Department of Agency</u>	<u>FY 2006 Projected</u>		<u>FY 2007 Projected</u>		<u>FY 2008 Projected</u>	
	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
Department of Agriculture						
Food Stamps ¹	\$ 1,579	6.5 %	\$ 1,506	6.2 %	\$ 1,506	5.8 %
Federal Crop Insurance Program	141	4.9	161	4.8	156	4.7
Department of Defense						
Military Retiree Benefits	\$ 48	N/A %	\$ 113.0	0.128 %	\$ 44.1	0.123 %
Military Health Benefits	182	2.0	204	2.0	218	2.0
Department of Education						
Pell Grants	\$ 637	4.50 %	\$ 645	4.50 %	\$ 646.0	4.5 %
Department of Health and Human Services						
Medicare	\$ 14,409	5.1 %	\$ 14,407	4.9 %	\$ 13,875	4.7 %
HeadStart	103	1.5	96	1.4	96	1.4
Department of Housing and Urban Development						
Public Housing/Rental Assistance	\$ 1,254	5.00 %	\$ 796	3.00 %	\$ 627	2.5 %
Department of Labor						
Unemployment Insurance	\$ 3,487	9.94 %	\$ 3,664	9.64 %	\$ 3,725	9.34 %
Federal Employment Compensation Act	6.4	0.248	6.4	0.244	6.5	0.24
Department of Transportation						
Highway Planning/Construction Grants	\$ 0	0	\$ 0	0	\$ 0	0
Federal Transportation Formula Grants	0	0	0	0	0	0
Airport Improvement Program	0	0	0	0	0	0
Federal Transportation Capital Investment Grants	0	0	0	0	0	0
Department of the Treasury						
Earned Income Tax Credit ²	See Note 2	See Note 2	See Note 2	See Note 2	See Note 2	

Table 3: Phase I Improper Payments Projected for FY 06 - FY 08 as Reported in FY 2005 PARs
(Dollars shown in millions)

<u>Department of Agency</u>	<u>FY 2006 Projected</u>		<u>FY 2007 Projected</u>		<u>FY 2008 Projected</u>	
	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
Department of Veterans Affairs						
Compensation/Dependency & Indemnity	\$ 323	1.12 %	\$ 322	1.08 %	\$ 312	1.04 %
Pension	261	7.9	274	7.9	253.0	7.9
Education	64	2.4	66	2.3	68.0	2.3
Insurances	0.3	0.02	0.3	0.02	0.3	0.02
Environmental Protection Agency						
Clean & Drinking Water State Revolving Funds	\$ 6.3	0.40 %	\$ 5.4	0.35 %	\$ 4.7	0.30 %
National Science Foundation						
Education/Research Grants	\$ 1.0	0.02 %	\$ 1.0	0.02 %	\$ 1.0	0.02 %
Office of Personnel Management						
Federal Employee Retirement Programs	\$ 159	0.28 %	\$ 164	0.28 %	\$ 168.8	0.28 %
Federal Employee Health Benefit Programs	82	0.30	79	0.29	79.0	
Federal Employee Life Insurance Programs	3.5	0.03	4.4	0.21	4.4	
Small Business Administration						
Small Business Investment Centers	\$ 33.7	2.25 %	\$ 24	2.00 %	\$ 20.0	2.0 %
Disaster Assistance	20.0	0.50	4	0.33	3.3	0.25
(504) Certified Development Company Debentures	0	0	0	0	0.0	0
Social Security Administration						
Old-Age, Survivors, & Disability Insurance	\$ 2,156	0.40 %	\$ 2,162	0.40 %	\$ 2,276.0	0.4 %
Supplemental Security Income	2,709	6.30	2,482	5.80	2,466.0	5.5
Phase I Projections for FY 06 - FY08	\$ <u>38,364</u>		\$ <u>38,086</u>		\$ <u>37,456</u>	

¹The Food Stamp error rates shown for FY 2006 and FY 2007 were set in the FY 2006 President's Budget. This is the reason the "reduction" targets are higher than the FY 2005 reported error rate. The reduction target for FY 2008 was set in the FY 2007 President's Budget which occurred subsequent to the reporting of the FY 2005 error rate. Therefore, this

²The National Research Project analysis based on tax year 2001 data was completed during FY 2005. For FY 2005 reporting purposes, because the data is from more than three years ago, the Treasury Department has "aged" the data to project current and outyear improper payment totals. Based on limitations with this approach, the Treasury Department reports a range, rather than a single point estimate. The relevant ranges are as follows: FY 2004 - \$8,668 million to \$10,638 million (22% to 27%); FY 2005 - \$9,600 million to \$11,400 million (23% to 28%); FY 2006 - \$9,800 million to \$11,600 million (23 to 28%); FY 2007 and FY 2008 - \$10,000 million to \$11,800 million. For the purposes of deriving government-wide totals, the midpoint of the EITC range is used.

**Table 4: Phase I
Over and Under Payments
2005 Improper Payment Reporting**
(Dollar amounts in millions)

<u>Department or Agency</u>	<u>Over- payments</u>	<u>Under- payments</u>	<u>Gross \$</u>	<u>Net \$</u>
Department of Agriculture				
Food Stamps	\$ 1,091	\$ 341	\$ 1,432	\$ 750
Department of Education				
Pell Grants	\$ 349	\$ 221	\$ 571	\$ 128
Department of Health and Human Services				
Medicare	\$ 11,200	\$ 900	\$ 12,100	\$ 10,300
Department of Housing and Urban Development				
Public Housing/Rental Assistance	\$ 1,074	\$ 393	\$ 1,467	\$ 681
Department of Labor				
Unemployment Insurance	\$ 3,051	\$ 216	\$ 3,267	\$ 2,835
Department of the Treasury				
EITC ¹	See Note 1	See Note 1	See Note 1	See Note 1
Department of Veterans Affairs				
Compensation/Dependency & Indemnity	\$ 168.5	\$ 133.9	\$ 302	\$ 35
Pension	265	15.3	282	250
Education	37	33	70	4
Office of Personnel Management				
Federal Employee Retirement Programs	\$ 147.1	\$ 5.1	\$ 152.2	\$ 142
Federal Employee Health Benefit	190.9	5.6	196.5	185.3
Federal Employee Life Insurance Programs	0.7	1.3	2	-0.6
Social Security Administration				
Old Age, Survivors and Disability Ins.	\$ 2,582	\$ 1,099	\$ 3,681	\$ 1,483
Supplemental Security Income	2,406	504	2,910	1,902
Total Where Known	\$ 33,063	\$ 3,868	\$ 36,933	\$ 29,194
Total Where Unknown			\$ 356	
Total			\$ 37,289	

¹ Improper payment rates for this program are reported as a range. In FY 2005, the Department of Treasury reported an improper payment range of \$9,600 million to \$11,400 million. For the purposes of this report, all improper payments related to this program are considered overpayments. When totals are aggregated, the mid-point of the range is used.

Table 5: Improper Payment Measurements for Risk Susceptible Programs not reported in FY2005
(Dollar amounts in millions)

<u>Department or Agency</u>	<u>FY 2005 Outlays</u>	<u>Measurement Expected</u>
Department of Agriculture		
School Programs	8,187	FY 2006 ¹
Special Supplemental Nutrition Program for Women, Infants, and Children	4,812	FY 2006 ¹
Child and Adult Care Food Program	2,061	FY 2006 ¹
Department of Health and Human Services		
Medicaid	\$ 181,719	FY 2007 ¹
Temporary Assistance for Needy Families	17,401	To be determined
Child Care and Development Fund	4,901	To be determined
State Children's Health Insurance Program	5,129	FY 2007 ¹
Department of Homeland Security		
Agency has strengthened risk assessment criteria for FY 2006.	\$ 39,307	N/A thru FY 2005
Federal Communications Commission		
Universal Service Fund's Schools and Libraries Program	\$ 1,707	FY 2007
Universal Service Fund's High Cost Support Program	3,760	FY 2007
Outlay Total Not Reported	\$ 268,984	
Outlay Total Reported	\$ 1,253,764	
Outlay Total for All Risk	\$ 1,481,773	

¹Component error measurements will be reported in the year indicated.

**Table 6: New Programs (Phase II) Reported in FY 2005 PARs and Projections for
FY 2006 - FY 2008**
(Dollar amounts in millions)

<u>Department or Agency</u>	<u>FY 2005 Reported</u>		<u>FY 2006 Projected</u>		<u>FY 2007 Projected</u>		<u>FY 2008 Projected</u>	
	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
Department of Agriculture								
Marketing Assistance Loan Program	\$ 45	0.70 %	\$ 70.0	0.7 %	\$ 65.0	0.7 %	\$ 0.6	0.6 %
Milk Income Loss Program ¹	0.2	0.09						
Loan Deficiency Payments	5.0	1.00	49.0	1.0	40.0	0.9	0.8	0.8
Wildland Fire Suppression Management	113.0	3.70	53.0	3.0	44.0	2.9	2.8	2.8
Rental Assistance	27.0	3.19	25.0	3.0	24.0	2.8	2.6	2.6
Farm Security and Rural Investment Programs	16.0	1.55	14.0	1.0	12.0	0.8	0.6	0.6
Department of Defense								
Military Pay	\$ 432	0.63 %	\$ 389	0.56 %	\$ 362	0.50 %	\$ 347	0.47 %
Department of Education								
Federal Family Education Loan Program	\$ 16	0.16 %	\$ 10.0	0.2 %	\$ 9.0	0.2 %	\$ 9.0	0.2 %
Title I ²	139	1.19	139	1.19	139.0	1.19	139.0	1.19
Department of Health and Human Services								
Foster Care ³	\$ 155	8.60 %	\$ 154.6	8.49 %	\$ 139.4	7.57 %	\$ 132.9	7.16 %
Department of Labor								
Workforce Investment Act	\$ 7.9	0.21 %	\$ 7.6	0.2 %	\$ 7.3	0.19 %	\$ 7.4	0.19 %
Department of Veterans Affairs								
Loan Guaranty ⁴	\$ 6.5	0.50 %	\$ 4.2	0.35 %	\$ 8.5	0.33 %	\$ 7.8	0.3 %
Vocational Rehabilitation ⁴	9.5	1.72	9.8	1.62	9.6	1.52	9.5	1.42
Small Business Administration								
7(a) Guaranty Purchase Program ⁴	\$ 31.4	5.2 %	\$ 30.0	5.0 %	\$ 29.4	4.9 %	\$ 28.8	4.8 %

**Table 6: New Programs (Phase II) Reported in FY 2005 PARs and Projections for
FY 2006 - FY 2008**

(Dollar amounts in millions)

<u>Department or Agency</u>	<u>FY 2005 Reported</u>		<u>FY 2006 Projected</u>		<u>FY 2007 Projected</u>		<u>FY 2008 Projected</u>	
	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>	<u>Dollars</u>	<u>Percent</u>
Railroad Retirement Board ⁵								
Retirement and Survivor Benefits ⁵	\$ 172.8	1.9 %	\$ 147.9	1.64 %	\$ 150.6	1.64 %	\$ 155.4	1.64 %
Railroad Unemployment Insurance Benefits ⁵	2.6	2.11	2.3	2.11	2.5	2.11	2.7	2.11
Tennessee Valley Authority								
Miscellaneous programs	\$ 6.2	0.1 %	0.0		0.0		0.0	
Totals	\$ <u>1,185</u>		\$ <u>1,105</u>		\$ <u>1,042</u>		\$ <u>847</u>	

¹This program was not funded past FY 2005.

²The figures for this program through FY 2008 are based on FY 2003 data as reported in Education's FY 2005 PAR.

³The FY 2005 figures in this report for Foster Care are based on corrected information received from HHS subsequent to their FY 2005 PAR submission.

⁴The improper payment amount and rate reported in FY 2005 for these programs is based on a review of FY 2004 payments.

⁵Outyear error rate projections shown constant until additional data is reviewed.

Table 7: Agency Recovery Auditing Reporting
(FY 2005 PARs)
(dollar amounts in thousands)

<u>Department or Agency</u>	<u>Amount Subject to Review for FY 05 PAR</u>	<u>Amount Reviewed and Reported in FY05 PAR</u>	<u>Amount Identified for Recovery</u>	<u>Amount Recovered</u>
Agriculture	\$ 4,965,000	\$ 2,428,000	\$ 333,000	\$ 189,000
Defense	222,800,000	222,800,000	473,000	418,500
DHS	3,232,000	3,232,000	2,191	1,207
Education ¹	1,393,000	N/A	274	113
Energy	24,114,000	11,387,000	10,600	9,500
HHS	12,600,000	11,100,000	800	14
HUD	2,270,000	206,565	0	0
Interior	4,710,000	4,710,000	1,549	195
Justice	6,667,804	4,606,639	1,044	765
State	30,600,000	30,600,000	5,350	5,190
Transportation	3,064,875	2,587,772	2,664	2,664
Treasury	4,941,295	3,851,986	429	365
VA	5,368,316	5,368,316	23,001	12,958
EPA	6,460,000	175,600	130	130
GSA	111,000	111,000	26,639	8,317
SSA	1,160,000	61,000	317	50
USAID	13,000,000	13,000,000	5,900	5,782
Tenn.Valley Authority	<u>5,555,760</u>	<u>38,491</u>	<u>909</u>	<u>909</u>
TOTALS	\$ <u>353,013,050</u>	\$ <u>316,264,369</u>	\$ <u>887,797</u>	\$ <u>655,659</u>

¹Identified and recovered amounts are based on a review of five fiscal years, 1999-2005.