Testimony of the Honorable Linda M. Combs
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before the

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

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I am very pleased to be able to speak with you and the Subcommittee today on the progress being made in implementing the Improper Payments Information Act of 2002 (IPIA) and the Recovery Auditing Act. Much of the information I will discuss today can also be found in the recently published OMB report, *Improving the Accuracy and Integrity of Federal Payments* (January 31, 2007).

Today, I will discuss our accomplishments in implementing the IPIA, the government progress in recovery auditing, and how Congress can assist in achieving our shared objective of eliminating improper payments.

The Federal Government is achieving measurable results in meeting the President's goal to eliminate improper payments and fulfilling the requirements of IPIA. The IPIA has provided an effective framework for the Administration's efforts in this important area. Additionally, the Recovery Auditing Act, which addresses contract payments for agencies that award $500 million or more in contracts each year, has also been instrumental in recapturing improper contract payments. Since the first reporting under IPIA in FY 2004, our efforts to eliminate improper payments have been centered on the three primary requirements of the IPIA:

1. Identifying risk-susceptible programs;
2. Estimating the annual amount of improper payments in risk-susceptible programs; and
3. Identifying the root causes of improper payments and correcting the errors.

Identifying Risk-Susceptible Programs

In FY 2006, agencies strengthened their methods for risk assessing their programs and activities for improper payments. As a result of these improvements, the amount of Federal outlays determined to be susceptible to improper payments increased from $1.4 trillion (or 62% of $2.4 trillion total Federal outlays in FY 2004) to $1.7 trillion (or 66% of $2.7 trillion total Federal outlays in FY 2006). This year's risk total includes $184 billion in Federal program outlays not previously reported as risk susceptible in prior annual OMB reports.[1] This increase

[1] An increase in high-risk outlays does not mean that improper payments have increased or will increase in the future.

reflects the continued commitment of Federal agencies to ensure that all *potential* sources of error are reported.

Of note, the U.S. Department of Agriculture (USDA) re-assessed its programs and reclassified several within the Farm Service Agency as high-risk. As a result, a large number of previously undetected problems in a known high risk program were identified and reported. The Department has quickly implemented corrective actions to mitigate the documentation inadequacies discovered. This underscores the importance of having agencies continuously evaluate the strength of their risk assessment and measurement practices.

One agency of special focus in FY 2007 will be the Department of Homeland Security (DHS). DHS made progress in their FY 2006 reporting, by including an improper payment measurement for the Federal Emergency Management Agency's Individual and Household Program. This year, DHS is working to strengthen its risk assessments so that there is more transparency into potential improper payments within the Department.

Estimating the Annual Amount of Improper Payments in Risk-Susceptible Programs

Efforts are continuing to move the Executive Branch to full reporting under IPIA by FY 2008. The amount of Federal program outlays that are being measured for improper payments has increased from $1.1 trillion to $1.4 trillion. Therefore, 81% of all risk susceptible outlays are being measured for improper payments ($1.4 trillion of the $1.7 trillion high-risk dollars). When FY 2008 results are reported, almost 100% of risk susceptible dollars will report an error measurement (with the inclusion of over $325 billion in high-risk outlays not currently reporting an error measurement).[2]

	FY 2004		FY 2005		FY 2006	
	Improper Payments	Error Rate	Improper Payments	Error Rate	Improper Payments	Error Rate
FY 2004	$ 45,043	3.9%	$ 37,170	3.4%	$ 36,300	3.2%
FY 2005			$ 1,314	1.1%	$ 2,920	2.0%
FY 2006					$ 1,295	1.1%
Total	$ 45,043	3.9%	$ 38,484	3.2%	$ 40,515	2.9%

The increase in statistically valid national error measurements would not have been possible without the cooperation of representatives from the Federal and State governments, and among the programmatic, financial management, and Inspectors General communities. Such cooperation is critical, especially for the large and complex programs that are at risk for improper payments.

[2] Medicaid will begin reporting a component, or partial, error measurement in FY 2007. By FY 2008, the Temporary Assistance for Needy Families program, the Child Care and Development Fund, and the State Children's Health Insurance Program will also report a national error measurement.

Identifying the Root Causes of Improper Payments and Correcting the Errors

The amount of improper payments in the programs originally reported in FY 2004 were reduced from a baseline of approximately $45.1 billion to $36.3 billion this year, a nearly $9 billion or 20% reduction. These original programs continue to represent a significant majority of FY 2006 improper payments.

The overall Federal FY 2006 improper payment rate was 2.9% and total improper payments equaled $40.5 billion. These numbers represent a reduction in the total rate and amount of improper payments reported since FY 2004 (from 3.9% and $45.1 billion respectively). The decrease in the FY 2006 improper payment rate was driven largely by two factors: (1) a reduction in Medicare improper payments by $1.3 billion since FY 2005[3] and (2) low improper payment rates for programs that reported error measurements for the first time in either FY 2005 or FY 2006. Other significant achievements include:

- USDA reported that the Food Stamps program lowered its error rate (5.84%) for the seventh consecutive year.
- The Department of Housing and Urban Development's Public Housing and Rental Assistance programs have reduced improper payments by nearly $2 billion since FY 2001, a reduction of more than 60%.
- The Social Security Administration's Old Age, Survivors, and Disability Insurance program (OASDI) error rate dropped 1/10 of 1 percent or $401 million.

Departments and agencies have now completed their third year (in several cases their fourth year) of reporting under the Recovery Auditing Act (section 831 of the Defense Authorization Act for Fiscal Year 2002 (Pub. L. No. 107-107)). In FY 2006, 20 agencies reported on their recovery audit efforts in their Performance and Accountability Reports (PARs), an increase of 14 agencies since 2004. Of note, the Department of Defense (DOD) reviewed nearly $300 billion in commercial payments during FY 2006. Approximately $170 million in payment errors were identified in FY 2006. For this same reporting period, approximately $133 million were recovered.

We realize that additional work is required to ensure that the full universe of improper vendor payments is identified. OMB is already working with agencies to look more closely at this area of improper payments.

Outlook for FY 2007 and Beyond

Let me take this opportunity to express my sincere appreciation to the Senate for providing over a billion dollars in adjustments to the discretionary caps for program integrity and tax compliance efforts in the Senate Budget Resolution as reported out of the Budget Committee. We would, of course, encourage the House to include these cap adjustments in their Budget Resolution as well, and welcome your leadership in helping make this happen. As you are aware,

[3] Medicare substantially improved its claims documentation, and reduced its error rate reporting in the Fee for Service portion of the program from 10.1% in FY 2004 to 5.2% in FY 2005. The rate decreased even further in FY 2006 to 4.4%.

these proposals provide greatly needed resources for administrative program integrity and tax compliance efforts in Medicare, Medicaid, Earned Income Tax Credit (EITC) and other Internal Revenue Service (IRS) enforcement activities, Unemployment Insurance (UI), Supplemental Security Income (SSI), and Old Age, Survivors, and Disability Insurance (OASDI).

Additionally, we also appreciate the Senate's interest in including language to newly authorized bills that stresses the importance of program integrity. We also invite your leadership in assisting in the enactment of the other program-specific reforms included in the President's FY 2008 Budget. The President's FY 2008 Budget contains a series of reforms that are needed to ensure greater program integrity and payment accuracy. These proposals include:

- **UI Overpayment Recoveries** – provides tools and resources as financial incentives to States to more aggressively pursue benefit overpayments. If enacted, the proposal is projected to save $3.6 billion over ten years.

- **EITC and Child Tax Credit** – clarifies tax code definitions to reduce filing complexity. If enacted, the proposals would save $487 million in the first year and $6.7 billion over ten years.

- **OASDI –** provides SSA with the tools to conduct improved enforcement of certain statutory provisions and to eliminate the more complicated formulas currently used when calculating certain benefit offsets. If enacted, these two proposals would save $4 million in the first year and $3.6 billion over ten years.

This Administration will continue to hold agencies accountable under the President's Management Agenda Eliminating Improper Payments initiative, and further build upon recent results to address remaining challenges. We are optimistic that our current efforts, complemented by the enactment of the program integrity reforms proposed in OMB's annual IPIA report, and full funding of the President's request for program integrity efforts, will continue to pave a path forward in achieving our shared objective to eliminate improper payments.