

**Statement of The Honorable Linda M. Combs  
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Office of Management and Budget**

**Before the  
Subcommittee on Federal Financial Management, Government Information,  
and International Security  
Committee on Homeland Security and Governmental Affairs  
United States Senate  
March 9, 2006**

Thank you, Dr. Coburn, Senator Carper, and Members of the Committee.

I am pleased to be here today to discuss the Administration's efforts to improve the accuracy and integrity of Federal payments. As there is no more important undertaking than the effective and efficient stewardship of taxpayer dollars, the President has made the elimination of improper payments one of his highest management priorities. Through the government-wide effort to improve financial management under the President's Management Agenda (PMA), as well as through the "Eliminating Improper Payments" PMA initiative, the Federal financial community is mobilizing people, resources, and technology to identify improper payments in all high risk programs, establish aggressive improvement targets, and implement corrective actions to meet those targets expeditiously. I appreciate this opportunity to share some recent success stories on agency efforts, to discuss steps we are taking to address ongoing challenges, and to provide you with highlights from OMB's second annual report on government-wide improper payments.

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 for FY 2004 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.

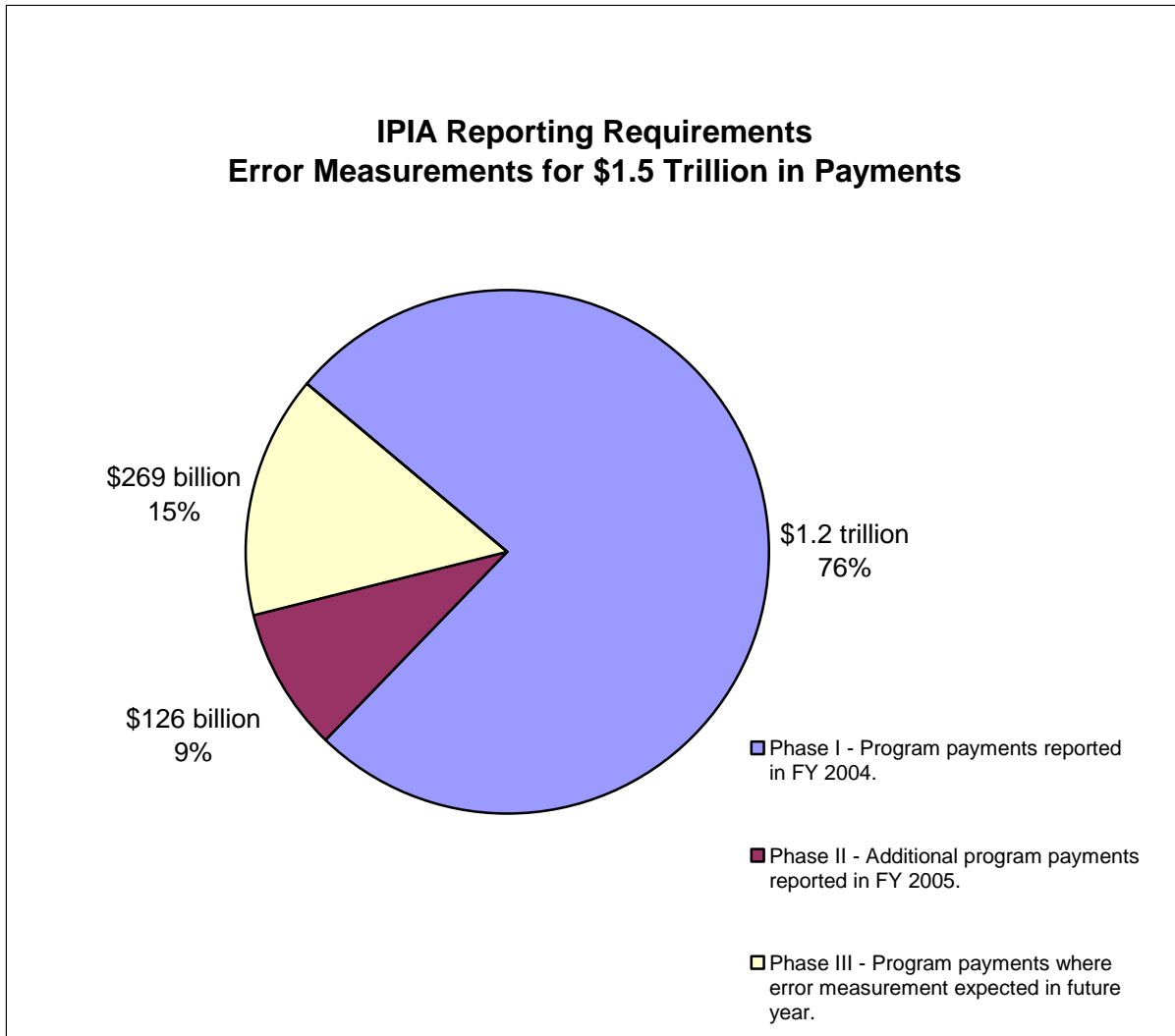
Much of this success can be attributed to the Improper Payments Information Act of 2002 (IPIA) and the PMA, each of which provide an effective accountability framework for ensuring the Federal agencies take all the necessary steps to ensure payment accuracy. Notable accomplishments from this past year include:

- 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) continued efforts to reduce improper payments in the Food Stamp program by simplifying program administration and working with States to ensure that 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) reduced improper UI payments by approximately \$600 million in FY 2005. This represents a greater than 15% decrease in the level of improper payments for this program since last year's reporting. To continue this success, DOL has undertaken several initiatives, including an expansion of 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.
- 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.

Although several important programs such as the Earned Income Tax Credit and Old-Age and Survivors Disability Insurance (OASDI) reported increases in improper payments in FY 2005, the government-wide improper payment total is trending significantly downward. It is important to note that a large portion of the increases for these programs is due to outlay growth. In fact, the error rates for these programs have remained stable over time. It should also be noted that the OASDI overpayment rate is still a very low 0.5%.

Working together with Congress and the Federal financial management community, it is my charge to ensure that effective approaches, such as those employed at HUD, HHS, DOL, and USDA, are implemented at more agencies and with similar results. The Chief Financial Officers Council will continue to play a critical role in our efforts by providing a forum for sharing best practices and by exploring partnerships with the private sector and states to leverage new technologies and generate more cost efficient methods for measuring and eliminating improper payments.

Another critical accomplishment in FY 2005 was that Federal agencies reported error measurements on an additional 17 programs. As noted in the figure below, we are referring to this new reporting as Phase II, with Phase I covering the programs originally reported in OMB's FY 2004 report. A third phase of the government's effort will be defined when improper payment measurements are available for remaining programs where measurements are currently under development.



With agencies now reporting on all Phase 1 and Phase 2 activities, we have an error measurement in place for approximately 85% of all payments deemed risk susceptible by Federal agencies. Although we are proud of this result, we are not satisfied with it. As I have stated in previous testimony before this Subcommittee, until all high risk programs report an error rate measurement, the totality of the problem will not be known. Therefore, through the PMA, we have asked agencies to develop and implement aggressive plans to develop error measurements in remaining programs where

an error measurement is needed. Based on agency plans, we expect to narrow the reporting gap to less than 5% by FY 2007 as measurements are established for programs such as Medicaid and School Lunch.

Also of note, and in direct response to suggestions made by this Subcommittee at a previous hearing, agency reporting on improper payments to vendors is now included in our government-wide reporting, providing a more complete picture on government-wide improper payments. Specifically, Federal agencies reviewed \$365 billion in vendor payments in FY 2005, identified \$557 million in improper payments, of which \$467 million (or 84%) has been recovered to date.<sup>1</sup>

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. For the programs reported in Phase I, the overall error rate dropped from 3.9% in FY 2004 to 3.1% for FY 2005. If these agencies continue to meet their expected reduction targets, we are projecting a 3% error rate for FY 2006 and a 2.9% rate for FY 2007. We also expect agencies to expand and enhance their recovery audit activities to cover more vendor payments and to improve recovery rates.

Because 95% of the reported improper payment total continues to reside within seven programs, OMB continues to focus on these agencies. In addition, we will continue to provide close scrutiny of the Department of Defense (DOD) efforts to identify and recover improper payments to vendors. To date, we have been impressed by DOD's commitment to improving recovery audit results and maintaining low error rates in other major programs, such as Military Health and Retirement benefits. Specifically, Military Health reported a 0.1% error rate, Military Retirement reported a .14% error rate, and DOD achieved an 88% recovery rate from internal reviews of vendor payments and external recovery auditing efforts. In addition, DOD identified and reported on an additional program in their FY 2005 PAR, Military Pay. We have found it very encouraging that DOD has carried on its efforts to risk assess its program inventory, and determine additional programs to track if warranted. It is our commitment to ensure that DOD continues to improve on results to date and that they enhance and expand the significant due diligence efforts underway to identify all relevant program areas at risk for improper payments.

Finally, 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

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<sup>1</sup> These results reflect updated information from Federal agencies received after all PARs were published in final. To reflect these new totals, OMB recently updated the annual improper payment report and re-posted it on our website.

than \$12 billion in savings over 10 years, leading to significant decreases in the government-wide improper payment total.

With the tools of the IPIA and this Administration's management initiatives in effect, the Federal Government is in a strong position to build on the dramatic reduction in improper payments achieved this year and to ensure that an error measurement is provided for all higher risk programs. With the goal of ensuring that each taxpayer dollar is spent wisely, efficiently, and for the purpose for which it was originally intended, we remain committed to eliminating Federal improper payments. We look forward to continuing to work with the Congress to see this objective accomplished.

Thank you, Mr. Chairman, for the opportunity to speak before you today. I am pleased to address any questions.