

**EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET**

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**Testimony of Daniel I. Werfel  
Controller, Office of Management and Budget  
before the  
Senate Committee on Homeland Security and Government Affairs  
Subcommittee on Federal Financial Management, Government Information, Federal  
Services, and International Security**

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**Introduction**

Thank you Chairman Carper, Ranking Member Brown, and distinguished members of the Subcommittee, for inviting me to discuss the Administration's initiatives for preventing, reducing, and recapturing improper payments. This Subcommittee has been at the forefront of moving us forward with reducing the amount of improper payments we make each year and I look forward to continuing to work together on this problem. Last August, I spoke before the Subcommittee about our efforts to prevent and recapture improper payments and I appreciate the opportunity to testify before you again.

One of the biggest sources of waste and inefficiency within the Federal government is the amount we pay out each year in improper payments. In Fiscal Year (FY) 2010, Federal agencies estimated that approximately \$125 billion in improper payments were made to individuals, organizations, and contractors. Improper payments occur when funds go to the wrong recipient, an ineligible recipient receives a payment, a recipient receives the incorrect amount of funds (including overpayments and underpayments), documentation is not available to support a payment, or a recipient uses funds in an improper manner. The majority of errors are not fraud, and not all errors are waste, but all payment errors degrade the integrity of government programs and compromise citizens' trust in government. As a result, the President has launched an aggressive and comprehensive campaign to address improper payments, rather than accept the status quo.

As part of the Administration's Accountable Government Initiative, we have moved to cut programs that don't work, streamline how government operates to save money and improve performance, and make government more open and responsive to the needs of the American people. Accordingly, we have set aggressive goals to prevent \$50 billion in improper payments, and recapture at least \$2 billion in improper payments, from FY 2010 through FY 2012.

While the Administration has several initiatives underway to accomplish these goals, our partnership with Congress has been vital to preventing and recovering improper payments. The enactment of the bipartisan Improper Payments Elimination and Recovery Act (IPERA) of 2010, which this Subcommittee was instrumental in drafting, was an important milestone in this partnership by providing Federal agencies with new tools to address payment errors.



Another critical step in addressing improper payments is the FY 2012 President's Budget, which contains a suite of mandatory and discretionary proposals that enable critical program integrity improvements in areas such as Medicare, Medicaid, Unemployment Insurance, and Social Security. Common to these proposals are taxpayer savings from the elimination of waste and error. In total, the President's proposals, if enacted, would save more than \$160 billion over 10 years.

The remainder of my testimony today further elaborates on current Administrative initiatives to prevent and recover improper payments.

### **Improper Payments Overview**

The Federal government makes trillions of dollars in payments every year. These payments provide support to millions of retirees and disabled individuals; student loan benefits for many college-aged students; payments to contractors for services performed in the United States and abroad; and grants to States for State-administered programs like Unemployment Insurance (UI) and the Supplemental Nutrition Assistance Program (SNAP).

The vast majority of payments made by the government are proper. This means that the payments are made in the right amount, are sent to the right recipient, and are used for the right purpose. Unfortunately, though, there are instances where the government makes payments that are improper.

Recognizing that improper payments were likely a problem that extended throughout the Federal government, Congress passed the Improper Payments Information Act of 2002 (IPIA, Pub. L. 107-300), which was recently amended by the IPERA (Pub. L. 111-204). Among other things, the law requires agencies to conduct risk assessments to determine which programs are susceptible to significant improper payments, to measure and report improper payment rates and amounts for programs that are found to be susceptible to improper payments, to implement corrective actions to address the root causes of improper payments, and to establish reduction targets to drive agency efforts to reduce and prevent future improper payments.

Prior to the IPIA, there was limited knowledge of the extent of government-wide improper payments. However, agencies are now identifying programs that are susceptible to making significant improper payments as well as identifying and addressing the root causes of these improper payments. In FY 2004, the first year of government-wide improper payment reporting under the IPIA, agencies reviewed 30 programs and reported an estimated \$45 billion in improper payments. Since then, the number of programs reviewed for improper payments has more than doubled, agencies have refined their measurement methodologies and improved the identification of improper payments, and government outlays have increased. These three factors have led to increases in improper payments reported by agencies, and in FY 2010, the most recent year of reporting, agencies reported \$125 billion in improper payments. While the amount of improper payments increased, the reported government-wide improper payment rate declined from 5.65 percent in FY 2009 to 5.49 percent in FY 2010. This percentage decrease represents real progress, as the government would have made approximately \$4 billion more in improper payments had the error rate remained the same in FY 2010 as it was in FY 2009. In addition, we made significant strides in recovering improper payments. In FY 2010, \$687



million was recovered as a part of agencies' recovery auditing efforts – three times the amount recovered in the prior year.

The Administration has taken an aggressive stance to remediate the \$125 billion in estimated improper payments in FY 2010. To that end, we have several initiatives under way that I would like to highlight today that aim to prevent and reduce improper payments. While our ultimate goal is to reduce the number of improper payments the Federal government makes, the Administration recognizes that efforts to reduce improper payments cannot unduly burden the intended beneficiaries of program benefits and legitimate entities doing business with the Federal government.

### **Current Administration Efforts**

In addition to putting forward administrative, legislative, and funding requests in the FY 2012 President's Budget, the Administration is already taking several steps to prevent, reduce, and recapture improper payments. I would like to highlight and provide a brief description of three of these initiatives: (1) implementation of Executive Order 13520 on Reducing Improper Payments; (2) implementation of IPERA; and (3) the status of our effort to leverage data-sharing and forensic technology.

#### *Executive Order 13520 on Reducing Improper Payments*

In response to the large increase in improper payments between FY 2008 and FY 2009, on November 20, 2009, the President issued Executive Order 13520 on Reducing Improper Payments.<sup>1</sup> The Executive Order aims to reduce and prevent improper payments by enhancing transparency, increasing agency accountability, and exploring incentives for State and local government efforts to reduce improper payments in State-administered programs (like UI, SNAP, and Medicaid). The Executive Order represents a fresh approach to addressing improper payments. It emphasizes the importance of detecting fraudulent claims, averting improper payments, and improving payment accuracy without making government programs harder to navigate, or restricting access to benefits for legitimate beneficiaries—such as poor families who need SNAP benefits to help put food on the table, or children who need health care and qualify for Medicaid or the Children's Health Insurance Program.

Agencies have made great strides in implementing the Executive Order. We have identified agencies with high-error programs that account for the majority of the amount of improper payments, established supplemental measures to provide more frequent and current measurements for the majority of these high-error programs, and selected Accountable Officials that are responsible for coordinating efforts to reduce improper payments at agencies with high-error programs. All of this information is now readily available to the public on an improper payments dashboard at *PaymentAccuracy.gov*. Specifically, the dashboard, which was required by the Executive Order, includes:

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<sup>1</sup> Executive Order 13520 can be viewed on the White House's website at: <http://www.whitehouse.gov/the-press-office/executive-order-reducing-improper-payments>



- Government-wide and program-by-program data on improper payment rates, amounts and reduction targets for high-error programs;
- Data on the amount of contract payment errors that have been recovered;
- The top 10 high-dollar improper payments for the most recent reporting quarter;
- The identity of the agency's Accountable Officials;
- Administration strategies to address improper payments; and
- Agency success stories.

### *Implementing the Improper Payments Elimination and Recovery Act of 2010*

In July 2010, the President signed IPERA into law. We believe that the passage of IPERA will significantly change the way agencies identify, and address, improper payments within their programs. We are actively working with agencies to implement this legislation and its requirements, and believe that it provides agencies with more tools and incentives to prevent, reduce, and recapture improper payments. In addition to requiring agency corrective action plans and reduction targets, IPERA requires agencies to establish mechanisms for holding managers, programs, and where appropriate, States and localities, accountable for addressing improper payments.

Last month, OMB released guidance to agencies on implementing IPERA.<sup>2</sup> This guidance ensures that agencies are properly assessing risk in their programs, measuring and reporting improper payments for required programs, and establishing corrective action plans and reduction targets to drive agency performance. In addition, when improper payments are made, IPERA and the implementing guidance expand the agencies' authorities and requirements for recapturing overpayments, one type of improper payment.

IPERA also expands the types of payments and activities that should be reviewed through payment recapture audits and changes what agencies can do with those recaptured funds. In addition, IPERA creates sanctions for agencies that are found non-compliant with the law by their Inspector General. The implementing guidance contains instructions to agencies on implementing these and other new requirements.

We have already taken several steps to ensure that agencies are implementing the new law and its guidance. First, last November, we issued initial IPERA guidance that required agencies to, among other things, review their programs and activities that could be reviewed under IPERA's new payment recapture authorities, and to submit a plan to OMB describing how they would implement the law and new requirements. Now that OMB's implementing guidance has been released, we have begun to meet with agencies to discuss how the guidance affects their implementation plans. In addition, next month we will hold a town hall meeting with agencies to discuss the guidance and address their questions.

Another guidance document that we are developing is the audit opinion on internal control over improper payments. As you know, IPERA required OMB to develop specific criteria as to when an agency should initially be required to obtain an opinion on internal control over improper payments, and criteria for agencies with stabilized, effective systems of internal controls over

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<sup>2</sup> The guidance is available at: <http://www.whitehouse.gov/sites/default/files/omb/memoranda/2011/m11-16.pdf>.



improper payments to qualify for a multiyear cycle for obtaining an audit opinion. We believe that strong internal controls go hand-in-hand with preventing and reducing improper payments. Accordingly, we are developing this guidance to ensure that it is implemented in a strong, effective manner, which will help improve existing internal controls at agencies.

### *Leveraging Technology to Address Improper Payments*

This Administration has made leveraging technology a major focus for preventing, reducing, and recapturing improper payments. Technology was a central theme in Executive Order 13520, which required OMB to work with agencies to identify new forensic accounting tools and technologies that could be used to identify and prevent improper payments. In addition, the Presidential memorandum directing that a “Do Not Pay List” be created will serve both as a front-end, and back-end, tool that agencies can use to verify eligibility before payment as well as conduct forensic analysis after a payment has been made.

As a result of the Presidential memorandum, we launched *VerifyPayment.gov* in November 2010, as a first step to towards easing agency efforts for checking certain eligibility databases before making payments. *VerifyPayment.gov*, when fully operational, will serve as a single portal through which all agencies can check the status of a potential contractor, grantee or individual beneficiary. The next step for expanding *VerifyPayment.gov* is to connect all needed data sources and create an operations center that will leverage forensic technology to assist agencies in identifying, preventing, reducing, and recapturing improper payments. The FY 2012 President’s Budget included a request for \$10 million in funding for the Department of the Treasury to enhance the elements laid out in the President’s “Do Not Pay” memorandum.

While the initial *VerifyPayment.gov* portal has been built, the Bureau of Public Debt (BPD) within the Department of the Treasury is responsible for enhancing the portal and developing the operations center. When complete, the operations center will utilize forensic technology similar to what was successfully deployed at the Recovery Accountability and Transparency Board (Recovery Board). The Recovery Board has been at the forefront of using cutting edge forensic technology to detect fraud patterns and ensure that Recovery Act funds do not go to bad actors. As a result of this stringent oversight, the Recovery Act has experienced a remarkably low rate of waste, fraud, and abuse – less than 0.4% of awards. We look forward to working with the Recovery Board and applying the lessons learned to the new operations center.

In coordination with BPD, we are currently conducting proof-of-concept pilots with select Federal agencies to demonstrate the effectiveness of a front-end eligibility verification portal with back-end forensic technology capabilities. We anticipate completing the pilot projects by the end of 2011, with full implementation of the operations center by the end of FY 2012.

As we work with BPD to enhance *VerifyPayment.gov* and to create the operations center, we are proceeding deliberately to comply with all applicable laws, regulations, and policies regarding the Federal Government’s use and sharing of personally-identifiable information. During the course of this work, we are discovering that increasing agency access to relevant data sources as well as driving efficiencies in the current process for inter-agency data sharing may improve improper payment outcomes. However, such steps must be carefully weighed against the need to protect privacy and ensure data security. We welcome the opportunity to work with this



Subcommittee and others in Congress to carefully examine these issues and determine whether reforms can be identified that successfully balance these various objectives.

### **Improving and Leveraging the Audit Process to Enhance Program Integrity Efforts**

As indicated above, we are taking an aggressive posture to prevent and recapture improper payments, which will ultimately improve financial management across the Federal government. As demonstrated by our current efforts to improve Federal financial management, we are continuously looking for better and more creative ways to address our financial management challenges.

I previously testified before a House of Representatives' committee that, while audit results signal financial management success in many areas, there are critical financial management objectives not currently evaluated or addressed through standard financial statement audit activities. The recent 20-year anniversary of the Chief Financial Officers Act (CFO Act) of 1990, and the passage of IPERA, have sparked a new and important dialogue among Federal financial management stakeholders concerning the gaps in our current reporting process and how best to close them. As you may recall, IPERA requires the financial management and audit communities to report on the lessons learned, progress made, and improvements needed in the implementation of the CFO Act. Informed by these discussions and my experience as the day-to-day leader of Federal financial management efforts across government, I believe there are three improvements to financial reporting that represent the greatest opportunity to drive bottom-line results for taxpayers. They are:

- Improving reporting on where Federal taxpayer dollars are spent;
- Instituting stronger internal controls to mitigate government waste and error; and
- Increasing access to reliable information on the cost of agency operations.

Together, these three improvements can provide better information for Federal managers to make more informed decisions, enhance program integrity efforts, and increase agency transparency.

Most relevant to improper payments is the need to focus audit scrutiny on internal controls to mitigate error. Today, our financial statement audit results address whether the agency has the appropriate accounting in place to successfully record that a payment has occurred. However, the audit opinion often stops short of scrutinizing the integrity of that payment. This leads to a situation in which there is no correlation between an agency's ability to obtain a clean opinion and an agency's ability to mitigate instances of improper payments. I believe an important improvement that should be considered as we re-examine our current reporting model is:

- Holding the agency accountable for reporting the various root causes and components of their payment errors;
- Identifying those areas of error that are within the direct and immediate control of the agency to mitigate; and
- Evaluating whether the agency has taken sufficient action to mitigate the risk associated with such errors.

## **Conclusion**

The problem of improper payments is not new and will continue to be a challenge for Federal agencies. The amount of improper payments reported by the Federal government has reached unprecedented high levels and must be aggressively addressed. Under this Administration, Federal agencies are renewing and improving their efforts in this area, and we have begun to see progress. Much of this progress has been made as a result of the three initiatives identified in my testimony —Executive Order 13520, the passage and implementation of IPERA, and the leveraging of technology.

We are proud of progress we've made so far, but we continue to seek additional ways to address improper payments. In order to identify and leverage additional tools that will help drive down errors, the FY 2012 President's Budget includes a number of legislative and administrative reforms on improper payments and debt collection, which, if enacted, would result in over \$160 billion in savings to the Federal government over 10 years.

In your letter requesting me to appear at this hearing, you stated that one of the purposes for holding this hearing was to explore potential next steps for curbing improper payments. I want to close by saying that this Administration has made combating improper payments within the Federal government a top priority and we will continue to explore new and innovative ways to prevent and recapture improper payments. Hopefully, I have given the members of this Subcommittee an understanding of where we are, and where we are going, to reduce payment errors across the Federal government. However, our efforts can only go so far. The Congress, the Government Accountability Office, and each agency's Inspector's General Office, play a critical role in holding agencies accountable for reducing improper payments. By continuing to shed a light on improper payments and keeping agencies focused on fixing this problem, I believe we will be able to see real progress.

In the months ahead, the Administration will continue to work through the Accountable Government Initiative to restore a sense of responsibility and accountability for taxpayer dollars. Thank you again for inviting me to testify. I look forward to answering your questions.