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

DEPUTY DIRECTOR
FOR MANAGEMENT

Testimony of the Honorable Clay Johnson III
Deputy Director for Management
Office of Management and Budget

before the

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

December 5, 2006

The Federal Government is achieving measurable results in meeting the President's goal to eliminate improper payments and fulfill the requirements of the Improper Payments Information Act of 2002 (IPIA). The IPIA provides an effective framework for the Administration's efforts and I urge you to keep the law in its current form. Congress could, however, help eliminate improper payments sooner by enacting the program-specific reforms included in the Office of Management and Budget's (OMB) annual IPIA report and by supporting the President's request for program integrity funding.

Our efforts to eliminate improper payments are centered on the three primary requirements of the IPIA:

1. Identifying high-risk programs;

2. Developing a statistically valid estimate of improper payments for all high-risk programs and activities; and

3. Developing corrective action plans for eliminating improper payments.

<u>Identifying High-risk Programs</u>

In fiscal year (FY) 2005, Federal agencies completed a risk assessment of all programs and dollars spent and determined that nearly 60% of government outlays (or $1.5 trillion out of $2.5 trillion) were risk susceptible for a significant level of improper payments.[1] Although $1.5 trillion represents a significant corpus of all Federal outlays, we continue to hold agencies accountable for identifying any additional high-risk areas.

[1] The remaining $1.0 trillion (approximately) that was deemed not to be risk susceptible is made up of compensation, contractual services, and net interest on the public debt.

Of note, the U.S. Department of Agriculture (USDA) re-assessed its programs and reclassified several within the Farm Service Agency as high-risk. However, the Department quickly implemented corrective actions to mitigate the documentation inadequacies discovered. One important result of these improved USDA risk assessments is that greater transparency is now available into a significant amount of improper payments that were previously undetected. In addition, this underscores the importance of having agencies continuously evaluate the strength of their risk assessment practices.

One agency of special focus in FY 2007 will be the Department of Homeland Security (DHS). We will work to ensure that DHS strengthens its risk assessments so that we have a better understanding of potential improper payments within the Department. It is important to point out, however, that DHS did make progress in their FY 2006 reporting, by including an improper payment measurement for the Federal Emergency Management Agency's Individual and Household Program.

Developing a Statistically Valid Estimate of Improper Payments

Efforts are underway to move the Executive Branch to full reporting under IPIA. Originally, in FY 2004, 30 high-risk programs reported error measurements (and amounts). In FY 2005, Federal agencies established improper payment rates (and amounts) for 47 programs that account for approximately 85% of high-risk dollars. This means that of the $1.5 trillion in high-risk outlays, improper payment rates are reported on programs that total $1.3 trillion of those outlays. When Medicaid and other social insurance programs begin reporting national error measurements in FY 2008, the government will be able to report improper payment rates for virtually all of its high risk programs.[2]

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, particularly for the large and complex programs that are at risk for improper payments.

Developing Corrective Action Plans for Eliminating Improper Payments

Our success in increasing the number of programs reporting improper payments is similar to the success the government is having in reducing improper payments. For example:

- The overall dollar amount of improper payments for the 30 programs reported in FY 2004 decreased 17%, from $45.1 billion to $37.3 billion in FY 2005.
- 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%. And contrary to the characterization in the Government Accountability Office's (GAO) recent report, Medicare's error rate reduction in both FY 2005 and FY 2006 is the result of improved

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

follow-up with medical providers to submit documentation for claims paid, and is not the result of a change in its methodology for estimating the error rate.

- In its FY 2006 Performance and Accountability Report, 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 reduced improper payments by nearly $2 billion since FY 2000, a reduction of more than 60%.

Federal agencies have also continued to improve their reporting under the Recovery Auditing Act. Only a handful of agencies reported on their recovery auditing activities in their FY 2004 Performance and Accountability Reports. In FY 2005 an additional 19 agencies reported on their recovery auditing efforts, and several agencies expanded these efforts to more contract categories for FY 2006 reporting. In FY 2005, agencies recovered $467 million of the approximately $557 million in identified improper payments to vendors, reflecting a recovery rate of 84%. We realize that additional work is required to ensure that the universe of improper vendor payments is identified. OMB is already working with agencies to look more closely at this area of improper payments.

To the question of the original purpose and Congressional intent of the legislation, and whether or not the metrics used under current statute are adequate to measure the entire scope of government-wide improper payments, I say yes. This Subcommittee and the GAO raised some concerns that OMB's implementing guidance would result in high-risk programs being left out of IPIA reporting. OMB appreciates the Subcommittee's and GAO's feedback and input, and made several changes to OMB's guidance to ensure that such high-risk programs will not be left out of our IPIA reporting framework.

This Administration will continue to hold agencies accountable under the President's Management Agenda and the Eliminating Improper Payments initiative, and will further build on 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 of eliminating improper payments.