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before the

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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 results from FY 2007 demonstrate that Federal agencies are identifying all high risk programs and activities, reporting error measurements for them, and implementing corrective actions to drive error totals down. Looking to FY 2008 and beyond, we are well-positioned to sustain current progress on the *identification* and *measurement* of improper payments. However, to *eliminate* the $55 billion in improper payments reported in FY 2007, Federal agencies need the resources and tools proposed in the President's FY 2009 Budget. Specifically, the Congress and the Executive Branch must work together to fund and implement program integrity activities with a proven track record for eliminating error, expand access to third party data sources to verify applicant eligibility, and enact legislative reforms that facilitate error reduction in our highest risk and larger dollar programs. Initiating these improvements will be essential if we are to meet the President's and Congress' charge to eliminate improper payments.

FY 2007 Results

In this fourth year of reporting under the Improper Payment Information Act (IPIA) of 2002, the Federal government has continued to make measurable improvements in identifying, measuring, and reducing improper payments.

- Federal agencies identified $1.9 trillion in program outlays to be measured for improper payments and subjected an additional $330 billion in high risk contract payments to recovery audits. As a result, 80% of all Federal outlays are being actively measured and/or reviewed for improper payments. We believe this amount represents virtually all sources of risk for significant payment errors.

- Fourteen programs reported error measurements for the first time, including a partial rate for the Fee-for-Service component of Medicaid. As a result, Federal agencies are now reporting error measurements on 85% of all program dollars deemed high risk for improper payments. An error measurement will be reported on all high risk programs by FY 2010.

- Federal agencies continued to achieve significant error reductions. The accompanying table shows that programs first reporting in FY 2004 had a 4.4% error rate (or $45.1 billion in improper payments). In FY 2007, those totals have declined to a 3.1% error rate (or a $7.9 billion reduction in improper payments). Similarly, programs that first reported in FY 2005 and FY 2006 have seen improper payments cut in half, representing a $2.3 billion reduction.

Federal Improper Payments by Fiscal Year ($ in millions)

	FY 2004		FY 2005		FY 2006		FY 2007	
	Error $	**Rate**	**Error $**	**Rate**	**Error $**	**Rate**	**Error $**	**Rate**
FY 2004	45,077.3	4.4%	37,168.3	3.4%	36,244.4	3.2%	37,187.2	3.1%
FY 2005			1,303.3	1.0%	2,914.3	2.0%	1,512.9	1.1%
FY 2006					1,429.1	1.4%	420.4	0.5%
FY 2007							15,863.4	12.4%
Total	**45,077.3**	**4.4%**	**38,471.6**	**3.1%**	**40,587.8**	**2.9%**	**54,983.9**	**3.5%**

These results demonstrate several important trends. First, under the current legislative and regulatory framework, Federal agencies are expanding the universe of high risk programs that are measured and/or audited each year. Second, the Federal government is making steady progress toward closing all reporting gaps so that the full extent of government-wide improper payments will be available in the next few years. Third, once an agency has identified and reported payment errors, it is able to implement corrective actions and reduce those errors in subsequent years.

These trends, along with other key data and analytics highlighted in OMB's annual IPIA report, *Improving the Accuracy and Integrity of Federal Payments (January 2008)*, inform the Federal government's strategy and priorities going forward. Specifically, four years into implementing the IPIA, agencies generally have the tools in place to ensure that all high risk activities are identified and measured. However, Federal agencies do not currently have the full complement of tools they need to eliminate the approximate $55 billion in improper payments reported in FY 2007. Our top priority is to address this gap through the strategies identified below.

<u>Maximize Impact of Program Integrity Dollars</u>

First, we will continue to focus our energies on the higher risk, larger dollar activities. Specifically, nine programs account for 90 percent of the government-wide improper payment total.[1] We must ensure that agencies are implementing effective improvement plans in these programs before initiating additional activities in lower risk areas. Within our largest

[1] The nine programs are Medicaid Fee For Service; Medicare Fee for Services; Earned Income Tax Credit; Supplemental Security Income; Unemployment Insurance; Old Age, Survivors, & Disability Insurance; Food Stamps; Public Housing/Rental Assistance; and National School Lunch Program.

programs, agencies must target the largest causes of error and utilize return on investment analyses to inform on the best uses of program integrity resources. The Social Security Administration has initiated rigorous return on investment analyses for its error prevention and reduction activities that are based on actual past performance and can serve as a best practice for other agencies.

Address Challenges in Eligibility Verification

In many cases, activities with the highest return on investment are those that help prevent ineligible applicants from receiving program benefits. Program eligibility errors account for approximately 80% of government-wide improper payments. These errors occur when Federal, State, and local governments are unable to validate data such as income information reported by applicants for benefits. Most of the nine programs that account for 90% of government-wide improper payments are means-tested,[2] where the inability to verify applicant income data is often a primary cause of error. Therefore, ensuring agencies have the tools to remedy eligibility errors must remain a top priority.

Historically, agencies have been less effective in eliminating eligibility errors than other causes of error, such as missing or incomplete documentation.[3] However, Federal agencies have had success when they match applicant information with third party databases that capture information such as earnings, income, assets, or work status. For example, improper payments in the Public Housing/Rental Assistance program dropped significantly once the Department of Housing and Urban Development (HUD) launched the Enterprise Income Verification System, which helped validate applicant income information.

Building on HUD's success, we intend to create more opportunities for third party data matches across government programs. This will involve a variety of initiatives, including enhancing current data sources such as the National Directory of New Hires so that it more effectively informs on program eligibility in the Unemployment Insurance program; eliminating legislative and regulatory barriers to all third party data sources for disaster relief scenarios; evaluating potential opportunities to standardize definitions for eligibility criteria among different programs serving similar populations; and initiating safeguards that balance expanded access with data privacy and security.

Enact Program Reforms

In most cases, ensuring resources for program integrity and expanding access to third party resources will require Congressional action. Specifically, each year since 2003, the President has proposed discretionary funding ("above the cap") for activities with a proven track record of reducing error and generating program savings. Despite anticipated savings of nearly $4 billion over 10 years, Congress has enacted only a small portion of these proposals, and did

[2] Means-test programs provide cash and non-cash benefits to families or individuals whose income falls below defined levels and who meet certain other eligibility criteria established for each program.

[3] Documentation errors arise when agencies do not have sufficient information to validate whether a payment is accurate or not. Correcting these errors provide greater confidence in the accuracy of Federal payments, but do not always translate into program savings. This is because many payments that are identified as improper due to missing documentation are ultimately determined to be proper once the necessary documentation is obtained.

so only in 2006. The current situation with the Social Security Administration's Supplemental Security Income program best exemplifies the need for Congress to ensure that cap adjusted program integrity dollars are appropriated. Improper payments have been steadily increasing in this program over the past several years (from $2.6 billion or a 7.3% error rate reported in 2004 to $4.1 billion or a 10.1% error rate reported in 2007). The under-funding of continuing disability reviews and redeterminations (i.e., the activities for which the cap adjusted funding would be used) is the primary cause for the increase in error dollars.

When the cap adjustments are combined with the President's other proposed legislative reforms for improving payment accuracy, the anticipated savings total is approximately $18 billion over ten years.[4] Thus, for every year these proposals are not enacted, the Federal government (and the taxpayer) loses approximately $1.8 billion in unrealized error reduction and savings.

Conclusion

The improper payment results achieved over the last four years demonstrate the importance of transparency and accountability in achieving better management results. Beginning in 2004, the President and Congress charged Federal agencies with reporting error measurements on all high risk activities and initiating corrective actions. In each year since, Federal agencies have expanded the programs and activities reporting error measurements and have reduced a significant amount of errors previously reported. Federal agency efforts have yielded a rich source of data on improper payments that helps inform on our challenges and priorities moving forward.

To eliminate $55 billion in improper payments, we believe the best path forward is to target the highest risk/dollar programs and the largest sources of error within those programs. Further, we must ensure that agencies rigorously assess where program integrity resources will generate the best return and then obtain the resources for the agencies to get the job done. Finally, we must continue to ensure that the remediation of improper payments remains a top management priority for Federal agencies. To this end, we will continue to utilize the President's Management Agenda scorecard, which has proven to be an effective accountability tool for driving agency leaders to implement effective approaches for reporting and eliminating improper payments.

We congratulate this Subcommittee for its attention and dedication to the elimination of improper payments. We look forward to working with you and other Members of Congress to implement each of the strategies identified above. At this time, I would be pleased to answer any questions that you have.

[4] A complete description of the President's legislative proposals for addressing improper payments is provided in OMB's annual IPIA report, *Improving the Accuracy and Integrity of Federal Payments (January 2008).* The relevant excerpt from the Report is attached to this testimony for convenience.

Attachment 1
Excerpt for OMB's annual IPIA report,
Improving the Accuracy and Integrity of Federal Payments (January 2008)

V. PROPOSED REFORMS

- *Each year since 2002, the President has proposed discretionary funding ("above the cap") for activities with a proven track record of reducing error and generating program savings. Despite anticipated savings of nearly $4 billion over 10 years, Congress has enacted only part of these proposals, and did so only in 2006.*
- *When combined with the President's other proposed legislative reforms for improving payment accuracy, the anticipated savings total approximately $18 billion over ten years.*

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.

Several reforms re-proposed in the FY 2009 President's Budget are critical to the Federal government's efforts to eliminate improper payments despite not providing scorable savings. Most notably, the Budget proposes adjustments for spending above a base level of funding within discretionary levels (or "cap adjustments") that provide resources for administrative program integrity and tax compliance efforts in Medicare, Medicaid, Internal Revenue Service enforcement activities, Unemployment Insurance, Supplemental Security Income, and Old Age, Survivors and Disability Insurance. Such funds should not be subject to discretionary spending caps, as they generate program efficiencies that result in large, positive returns on investment for taxpayers as high as 10:1. For the FY 2009 President's Budget, nearly $4 billion could be saved over ten years if the Congress enacts the President's request of $968 million.

Additional proposed reforms that are necessary to ensure greater program integrity and payment accuracy are summarized below and can save $14 billion over ten years with no additional funding required:

- *Unemployment Insurance Overpayment Recoveries* – provides tools and resources as financial incentives to States to more aggressively pursue benefit overpayments, 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 $3.6 billion over ten years.

- *Earned Income Tax Credit (and Child Tax Credit)* – clarifies the uniform definition of child, simplifies the Earned Income Tax Credit eligibility rules, and reduces the computational complexity of the refundable child tax credit. If enacted, the proposal would save $264 million in the first year and $6.4 billion over ten years.

- *Old Age, Survivors and Disability Insurance* – provides the Social Security Administration 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 the Worker's Compensation offset for Disability Insurance. If enacted, these two proposals would save $4 million in the first year and $3.6 billion over ten years.

- *Payment Transaction Integrity Act* - revises an existing exception to the Right to Financial Privacy Act to allow the Federal Government to trace and recover federal payments sent electronically to the wrong account. This will prevent improper payments from being accessed by incorrect recipients and/or in incorrect amounts. If enacted, savings are projected at $53 million in the first year, and $718 million over ten years.

The FY 2009 President's Budget includes a new legislative proposal for reducing improper payments when providing Federal assistance in an emergency. This proposal expands Federal agency access to government-owned or managed systems to confirm the eligibility of recipients applying for disaster assistance. This provision will facilitate the President's directive, under Executive Order 13411, that Federal agencies expedite the delivery of disaster benefits while maintaining effective payment controls.

In addition, consistent with Section 484(q) of the Higher Education Act and Section 6103(c) of the Internal Revenue Code, the Department of Education and the Internal Revenue Service continue work on implementing a process to verify students' (and their parents') income, tax and certain household information appearing on their income tax return that they provided as part of their application for Federal student aid. This process is part of ongoing efforts to ensure students receive the correct amount of Federal student aid, and is a key component of the Administration's efforts to reduce erroneous payments. This proposal will virtually eliminate improper payments in the Pell Grant program which are estimated at $400 million annually.

Last year, this Report highlighted legislation (Pub. L. No. 109-432) requiring all States to institute recovery auditing to recoup Medicare Trust Fund dollars that were improperly paid to hospitals, physicians, and other health care providers over the past several years. The Administration supports this type of forward thinking, and encourages innovative ideas for eliminating and recovering improper payments.