THE IMPROPER PAYMENTS INFORMATION ACT—ARE AGENCIES MEETING THE REQUIREMENTS OF THE LAW?

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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THE IMPROPER PAYMENTS INFORMATION ACT—ARE AGENCIES MEETING THE REQUIREMENTS OF THE LAW?

WEDNESDAY, APRIL 5, 2006

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 2:04 p.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Duncan, and Maloney.

Staff present: Mike Hettinger, staff director; Dan Daly, counsel; Tabetha Mueller, professional staff member; Erin Phillips, clerk; Adam Bordes, minority professional staff member; and Jean Gosa, minority assistant clerk.

Mr. PLATTS. A quorum being present, this hearing of the Government Reform Subcommittee on Government Management, Finance, and Accountability will come to order.

Congress has a responsibility to ensure that tax dollars are spent in the most effective manner possible and for their intended purpose. Unfortunately, as we will hear today, billions of dollars continue to be lost due to improper payments—any payment that should not have been made.

This administration and Congress have made the reduction of improper payments a top priority. In support of this goal, this subcommittee believes that taxpayers have a fundamental right to know how their tax dollars are being spent. In 2002, my esteemed former colleague, Congressman Steve Horn, who served as chairman of this subcommittee, was successful in securing the enactment of the Improper Payments Information Act of 2002. This law has helped bring to the forefront the need to address this issue more aggressively.

The work of the past few years has brought us a long way to getting our arms around the extent of this problem. What we know today is that a primary cause of these mistakes, which occur throughout Government, is the lack of adequate internal financial controls and business process systems. Some agencies have employed new technologies, such as data mining and electronic benefits transfer, with great success in helping to reduce their error rates. More can and must be done. This subcommittee will continue to conduct aggressive oversight on this important topic.

Today we will have from the Honorable Dr. Linda Combs, Controller in the Office of Federal Financial Management at the Office of Management and Budget. Dr. Combs, we again thank you for being with us. As in the past, we certainly appreciate your knowledge and wisdom that you bring to the committee.

Ms. COMBS. Thank you, Mr. Chairman.

Mr. PLATTS. We will also be joined by Mr. Charles Johnson of the Department of Health and Human Services, who is accompanied by Mr. Tim Hill, Chief Financial Officer at the Center for Medicare and Medicaid Services. We appreciate both of you being with us as well and look forward to your testimony. And we are joined finally by McCoy Williams, a regular here at the subcommittee. Mr. Williams, we appreciate you being with us and, again, the expertise and knowledge you bring to the subcommittee.

Mr. WILLIAMS. Thank you, Mr. Chairman.

[The prepared statement of Hon. Todd Russell Platts follows:]

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY
TODD RUSSELL PLATTS, CHAIRMAN

Oversight Hearing:

The Improper Payments Information Act – Are Agencies Meeting the Requirements of the Law?

Wednesday, April 5, 2006, 2:00 p.m.
Room 2247 Rayburn House Office Building

OPENING STATEMENT OF CHAIRMAN PLATTS

Congress has a responsibility to ensure that tax dollars are spent in the most effective manner, for their intended purpose. Unfortunately, as we will hear today, billions of dollars continue to be lost due to improper payments – any payment that should not have been made.

The Bush Administration and Congress have made the reduction of improper payments a top priority. In support of that goal, this Subcommittee believes that taxpayers have a fundamental right to know how their tax dollars are being spent. In 2002, my esteemed former colleague, Congressman Steve Horn, who served as Chairman of this Subcommittee, was successful in securing the enactment of the "Improper Payments Information Act of 2002". This law has helped bring to the forefront the need to address this issue more aggressively.

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Today, we will hear from the Honorable Dr. Linda Combs, Controller in the Office of Federal Financial Management at the Office of Management and Budget. Dr. Combs, thank you for being here. We will also hear from McCoy Williams from the U.S. Government Accountability Office. Mr. Williams, you have been very helpful to the Subcommittee over the past three years. Thank you for being here again. We will also be joined by Mr. Charles Johnson of the Department of Health and Human Services, who is accompanied by Mr. Tim Hill, Chief Financial Officer at the Center for Medicare and Medicaid Services. Thank you, and I look forward to your testimony.

Mr. PLATTS. We will proceed with opening statements and then get into your statements, and we appreciate the written testimonies you have provided, and if you want to summarize that here today, then we will get into questions and answers.

The gentleman from Tennessee, did you have a statement you would like to begin with?

Mr. DUNCAN. Yes, Mr. Chairman. Thank you very much. Very briefly, I will just say that, you know, the work of this Subcommittee on Government Management, Finance, and Accountability, I guess it is not the most dramatic or colorful or high-profile, but it is certainly extremely important, particularly, as we all know, when we have a national debt of well over $8 trillion and now we have raised the debt limit to $9 trillion because we know we are headed very quickly to that level.

So I think this work is very, very important, and I appreciate the seriousness and diligence with which you do your duties, Mr. Chairman, and I specifically remember the hearing that you had on this same legislation a year or so ago. And, in fact, we all represent about 700,000 people, but I send out a newsletter a couple of times a year to the 285,000-odd addresses in my district. And I wrote about this hearing as one of the topics, one of the many topics that I covered in that newsletter.

We heard some pretty amazing, pretty startling information in the hearing last year, and I am pleased that you have called another hearing, and I look forward to hearing the testimony to see what progress has been made since that point.

Thank you very much.

Mr. PLATTS. Thank you, Mr. Duncan, and we always appreciate and welcome your participation and your great leadership on financial accountability as well.

Mr. DUNCAN. Thank you.

[The prepared statement of Hon. Edolphus Towns follows:]

STATEMENT OF CONGRESSMAN ED TOWNS
HEARING ON IMPROPER PAYMENTS
APRIL 5, 2006

Mr. Chairman, I thank you for holding today's hearing on improper payments and their detrimental impact on agency operations. I also want to welcome back our distinguished panelists and look forward to their testimony.

As many here know, our subcommittee played a leading role in development and passage of the Improper Payments Information Act of 2002. The testimony submitted to us today, however, indicates that many programs are either not compliant with Act requirements, or remain overburdened in their efforts to reduce these payments.

For FY 2005, the federal government reported approximately $38 billion in improper payments throughout 57 programs for FY 2005. This amount represents a net decrease for improper payments of roughly $7 billion over last year, while including another 17 programs for review.

What is troubling to me, however, is the lack of transparency used by major programs to calculate improper payment totals, including the Medicare program at HHS. While I understand Medicare showed significant progress in reducing its improper payment level amounts by nearly $10 billion this past year, I am going to need further evidence that demonstrates HHS auditing and statistical practices are reliable for calculating these amounts.

Furthermore, several of our largest government programs, including Medicaid, have yet to provide OMB adequate estimates for such payments. Until such information is provided, we will fail to have a firm grasp of the financial risks inherent to these programs.

In closing, it's my hope that we can develop a better understanding of these issues from our panelists today. Mr. Chairman, this concludes my statement.

Mr. PLATTS. We will proceed to our witnesses. The practice of the committee, if we could swear each of you in before your testimonies and any others that will be advising you as part of your testimonies here today. If you would like to rise and raise your right hands?

[Witnesses sworn.]

Mr. PLATTS. Thank you. You may be seated. The clerk will note that all the witnesses have affirmed the oath, and, Dr. Combs, we will begin with you, if you would like to proceed.

STATEMENTS OF LINDA M. COMBS, CONTROLLER, OFFICE OF FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGEMENT AND BUDGET; CHARLES JOHNSON, ASSISTANT SECRETARY FOR BUDGET, TECHNOLOGY, AND FINANCE, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES, ACCOMPANIED BY TIMOTHY B. HILL, CHIEF FINANCIAL OFFICER AND DIRECTOR, OFFICE OF FINANCIAL MANAGEMENT, CENTERS FOR MEDICARE AND MEDICAID SERVICES; AND McCOY WILLIAMS, DIRECTOR, FINANCIAL MANAGEMENT AND ASSURANCE, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

STATEMENT OF LINDA M. COMBS

Ms. COMBS. Thank you, Chairman Platts, Congressman Towns, and members of this committee. I am certainly pleased to be here today to discuss the administration's efforts to improve the accuracy and integrity of Federal payments. As a reflection of how important the effective and efficient stewardship of taxpayer dollars is, the President has made the elimination of improper payments one of his highest management priorities. I appreciate the opportunity we have today to share some recent success stories on agency efforts, to discuss steps we are taking to address ongoing challenges, and to provide you with the highlights from OMB's second annual report on governmentwide improper payments.

During fiscal year 2005, the Federal Government made substantial progress in meeting the President's goal to eliminate improper payments. Most significantly, the governmentwide improper payment total reported for fiscal year 2004 decreased from $45.1 billion to $37.3 billion, a reduction of approximately $7.8 billion, or 17 percent.

Notable accomplishments from this past year include: Medicare's reported improper payments decreased by more than $9 billion, or 44 percent.

The U.S. Department of Agriculture reported an error rate of less than 6 percent in the food stamp program, which is the lowest error rate in the program's history.

The Department of Labor reduced improper Unemployment Insurance payments by approximately $600 million in fiscal year 2005. This represents a greater than 15-percent decrease in the level of improper payments for this particular program since last year's reporting.

The Department of Housing and Urban Development has reduced improper payments in this program by more than $1.8 billion since 2000.

Although several important programs such as the Earned Income Tax Credit and Old-Age and Survivors Disability Insurance reported increases in 2005, the governmentwide improper payment total is continuing to trend significantly downward.

Our CFOs are working together with program officials to leverage new technologies and generate more cost-efficient methods for measuring and eliminating improper payments.

Another critical accomplishment in fiscal year 2005 was that Federal agencies reported error measurements on an additional 17 programs.

We have an error measurement in place for approximately 85 percent of all payments deemed risk susceptible by Federal agencies. Although we are proud of this result, we are not satisfied with it.

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 governmentwide reporting, providing a more complete picture on governmentwide improper payments.

Specifically, Federal agencies reviewed $365 billion in vendor payments in fiscal year 2005. They identified $557 million in improper payments, of which $467 million, or 84 percent, has been recovered to date.

Because 95 percent of the reported improper payment total continues to reside within seven programs, the first seven that we identified in 2004, OMB continues to focus on these particular agencies.

Finally, the administration continues to pursue an aggressive legislative agenda in the improper payments arena with a series of program, with a series of program integrity reforms included in the President's 2007 budget.

With the tools of the Improper Payments Act and this administration's management initiatives hand in hand 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 high-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 you and this subcommittee and Congress to see that this objective is accomplished.

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

[The prepared statement of Ms. Combs follows:]

Statement of The Honorable Linda M. Combs
Controller, Office of Federal Financial Management
Office of Management and Budget

Before the
Subcommittee on Government Management, Finance, and Accountability
Committee on Government Reform
United States House of Representatives
April 5, 2006

Thank you, Chairman Platts, Representative Towns, and Members of the Subcommittee.

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 that 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 claims payment. As a result, Medicare's reported improper payments decreased by more than $9 billion.

- 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 Unemployment Insurance (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.

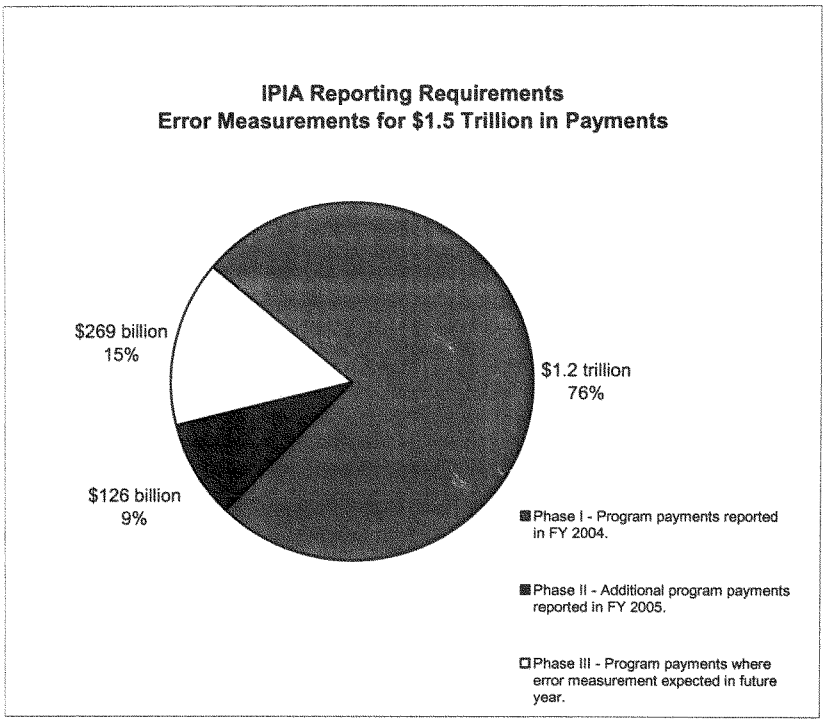
- The Department of Housing and Urban Development (HUD) continued to expand and strengthen its income verification program for the Public Housing/Rental Assistance program. As a result, HUD has reduced improper payments in this program by more than $1.8 billion since 2000, with an additional $200 million 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. 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. Despite its increase in FY 2005, the OASDI overpayment rate is still very low at 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 I and Phase II 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 from 15% to less than 5% by FY 2007 as measurements are established for programs such as Medicaid.

The absence of an improper payment measurement in Medicaid is due in large part to the size and complexity of the program, as well as resource and timing constraints. Over the past several years, and especially during the last 12 months, the Department of Health and Human Services (HHS) has invested a remarkable amount of effort in securing their ability to report an error measurement for the fee-for-service component of Medicaid in time for the FY 2007 Performance and Accountability Report (PAR). As you know, Medicaid is jointly funded by the Federal Government and the States, and each State administers its own Medicaid program. This means that in order to successfully obtain a national error rate for this program, States have to be completely committed to the measurement process.

Under the current contracting strategy, a sample of 17 states will be reviewed each year. HHS has selected the 17 states for fiscal years 2006 through 2008, and is currently drawing the sample of claims for the FY 2006 Medicaid fee-for-service measurement on a quarterly basis. In FY 2007, HHS will continue working with the States to obtain and report a comprehensive error rate that will include the eligibility, managed care, and fee-for-service. This comprehensive error measurement will be reported in HHS' FY 2008 PAR.

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.[1]

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.

[1] 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.

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 1.31% 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 it 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. Taken as a whole, DoD reports an error measurement on approximately 75% of its annual outlays.

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 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.

Mr. PLATTS. Thank you, Dr. Combs.
Secretary Johnson.

STATEMENT OF CHARLES JOHNSON

Mr. JOHNSON. Chairman Platts, Mr. Duncan, other members of the committee, I am delighted to be with you today. Thank you for the invitation. I am pleased to have Mr. Tim Hill adjacent to me. He is with the Centers for Medicare and Medicaid Services.

I have only been at Health and Human Services less than 1 year, but I spent considerable time looking at improper payments because of my strong belief that we have a genuine responsibility to the American taxpayer to protect their dollars.

Although more must be done, I am very pleased with what has already been accomplished at Health and Human Services. let me review our seven improper payment programs to give you a status report, starting with our largest program, Medicare.

The Department has been testing error rates in Medicare for 10 years, going back to 1996. In my judgment, we have a mature, sophisticated program that is a model for the rest of the programs in our Department.

In fiscal year 2005, we reported a Medicare fee-for-service error rate of 5.2 percent. That is a significant reduction from the 10.1 percent reported in the prior year. Now, this significant reduction can be attributed to the aggressive actions that we have taken to require adequate documentation. This does not necessarily translate into savings in the traditional sense, but no entity in the world should make payments without adequate documentation.

Significant error rate reductions from this point will be more difficult to achieve, but we intend to remain aggressive. Beginning this year, HHS will produce error rates twice a year. This increased availability of data will help not only us by our contractors to better target efforts to reduce payment errors. We have also adopted more incentives for contractors to eliminate improper payments.

Let me talk about the State Children's Health Insurance Program and Medicaid together.

In Medicaid, we have used a number of different pilots and demonstration projects to eliminate improper payments for this State-operated program. Much was learned from these projects, and there is evidence that we have had a reduction in improper payments where those measures were used. Whereas, Medicare is a single, consistent Federal program, by design each State runs its Medicaid program differently. After much review, the Department made a wise decision. We have concluded that we have a successful methodology in Medicare, and if we replicate that 50 times, we can achieve the same success in 50 States.

We are now launched on a Medicaid error rate program that is certain to be successful because it is proven. Now, this has caused us some delay in our originally intended reporting dates, but it will prove to be worth it. In the meantime, we will have interim data that will be useful to HHS and to this committee.

In 2006, contractors will measure national Medicaid error rates in 17 States, and by the end of fiscal year 2008, all 50 States and

the District of Columbia will be covered for both Medicaid and SCHIP.

Let me cover the rest of the programs.

Head Start: Under Head Start legislation, grantees are required to be monitored at least once every 3 years. We reported the Head Start payment error rate reduction from 3.9 percent in fiscal year 2004 to 1.6 percent in fiscal year 2005, primarily achieved by reinforcing the requirement that 90 percent of the served population must come from low-income families.

Foster Care Program: In the Foster Care Program, we developed a methodology for estimating a national error rate centered around eligibility, and these eligibility reviews are required by regulation. The fiscal year 2004 rate was 10.3 percent. That dropped to 8.6 percent in 2005.

The Temporary Assistance for Needy Families, TANF Program. Although we have had many pilots which were successful, we have not yet identified an efficient and effective approach for determining an estimate of improper payments in the TANF Program. In the meantime, we have installed alternative procedures to stop improper payments immediately upon discovery.

States are finding remarkable success in matching various data bases to look for individuals who are drawing benefits in more than one State, individuals who are employed in one State and drawing benefits in another State, and individuals who are newly employed and are not informing State officials. I am pretty excited about these data base matches.

Child Care Program. As with TANF, the Child Care Program legislation gives the States great flexibility in the design and administration of the program. For child care, we have initiated an improper payment pilot in which 19 States have participated. Based upon these pilots, we believe we have a methodology to valuate participant eligibility, which we have determined to be our greatest risk area.

In conclusion, Mr. Chairman, Mr. Duncan, the American taxpayer is well served by the money spent by HHS to combat improper payments and particularly health care fraud and abuse. Let me leave you with a very impressive recovery statistic. Since 1997, we have spent $5.7 billion on Medicare program integrity work and have recovered nearly $82 billion. That is a 14:1 return rate over the life of this program.

Thank you for the opportunity to give you an update on the Department's improper payment initiatives, and I will be pleased to answer any questions you may have.

[The prepared statement of Mr. Johnson follows:]

Statement of Charles Johnson

Assistant Secretary for Budget, Technology and Finance

U.S. Department of Health and Human Services

Before the

Subcommittee on Government Management,

Finance and Accountability

Committee on Government Reform

United States House of Representatives

For Release on Delivery

Expected 2:00 p.m.

Wednesday, April 5, 2006

Good afternoon, Mr. Chairman and Members of the Subcommittee. Thank you for inviting me before you today. It is a pleasure and honor for me to have the opportunity to update you on the U.S. Department of Health and Human Services' (HHS or the Department) improper payment initiatives.

The Department is firmly committed to ensuring the highest measure of accountability to the American people. With the size and scope of HHS programs, we know that it is critical to prioritize and be aggressive in our activities to identify and take action to reduce improper payments. Over the past several years, we have had many successes and accomplishments in this area. I am pleased to share some of these with you today as well as some of the challenges we face.

As required under the Improper Payments Information Act of 2002 (IPIA) and related guidance issued by the Office of Management and Budget (OMB), the Department is estimating, or in the process of developing or implementing methodologies to estimate improper payments for seven of its programs: Medicare, Medicaid, State Children's Health Insurance Program (SCHIP), Temporary Assistance for Needy Families (TANF), Foster Care, Head Start and the Child Care and Development Fund (CCDF). These seven programs account for close to 90 percent of HHS' $640 billion total estimated FY 2006 outlays. In terms of both size and potential for growth, the risk and impact of improper payments is greatest for the two HHS programs which account for 80 percent of the total outlays – Medicare and Medicaid. I will describe briefly the activities and initiatives HHS is engaging in for each of these programs. It is important to note that my testimony today

is primarily focused on improper payments. Those cases involving fraud are referred to the HHS Office of the Inspector General (OIG) and prosecuted by the Department of Justice (DOJ), which provides an important deterrent to fraudulent payment schemes.

MEDICARE

The Department's largest program, Medicare, accounts for close to 50 percent of the HHS outlays. Medicare is a Federal health insurance program administered by HHS that provides medical insurance to 42 million people. The majority of Medicare spending is for fee-for-service (FFS) hospital and physician services. The FFS component of Medicare covers a wide range of other items and services, including home health care, ambulance services, medical equipment, and preventive services. The HHS Centers for Medicare & Medicaid Services (CMS) administers the Medicare FFS claims processing and payment systems through contracts with Carriers, Durable Medical Equipment Medicare Administrative Contractors, and Fiscal Intermediaries (FIs). These entities, in addition to Quality Improvement Organizations (QIOs) and Payment Safeguard Contractors (PSCs), review claims submitted by other providers to ensure payments are made only for medically necessary services covered by Medicare for eligible individuals. HHS estimates that the contractors processed over one billion claims from providers, physicians, and suppliers for items and services that Medicare covers.

In 1996, HHS' OIG began estimating improper payments in the Medicare FFS program as part of the financial statement audit required by the Chief Financial Officer's Act of 1990. The OIG produced FFS error rates from FYs 1996 - 2002. Beginning in FY 2003,

HHS, working with the OIG, implemented a more robust process – the Comprehensive Error Rate Testing (CERT) program – to assess and measure improper payments in the Medicare FFS program. The CERT program not only produces a national paid claims error rate but also provides very specific improper payment rates, including contractor-specific improper payment rates which measure the accuracy of our claims processors; provider-type specific improper payment rates which measure how well the providers who care for beneficiaries are preparing and submitting claims; and benefit service-type improper payment rates and other management related information which provides insight into payment errors by region and reason. The Medicare FFS improper payment estimate is derived from two programs; the CERT program and the Hospital Payment Monitoring Program (HPMP). Each component represents about 50 percent of the total FFS Medicare payments. The CERT program has provided HHS with a powerful tool to identify problems in claims processing and address these problems through specific corrective action plans.

In November 2005, HHS reported a Medicare FFS paid claims error rate of 5.2 percent, which is significantly lower than the 10.1 percent rate reported in FY 2004. Our goal was to lower the national Medicare FFS error rate to 7.9 percent by November of 2005, with a long term goal of 4.7 percent by 2008. We have far exceeded our goal in having reduced the error rate 2.7 percent beyond the 2005 target.

The significant reduction in the Medicare FFS error rate from 2004 to 2005 can be attributed to marked improvement in the no documentation and the insufficient documentation error rates. In the past, a primary cause of Medicare payment errors has

been providers not submitting the medical record documentation needed to verify the appropriateness of payment in response to our requests for documentation. Often providers did not understand the CERT program or were concerned that submitting medical records to a HHS contractor would be in violation of Health Insurance Portability and Accountability Act (HIPAA) regulations. However, the HIPAA Privacy Rule permits disclosure of protected health information to carry out treatment, payment or health care operations. Thus we expanded our education efforts to ensure that providers understand that responding to our requests does not violate HIPAA. Documentation is crucial to the medical review process used to verify the appropriateness of payment. If the documentation is missing or incomplete, no determination can be made. Historically, the CERT program has taken a conservative approach to dealing with missing or insufficient medical record documentation; a claim with missing or incomplete documentation was scored as an error.

Another significant cause of errors has been providers not submitting the appropriate types of medical record documentation to support the types of services billed to the Medicare program. HHS took action to help reduce these errors by giving providers an opportunity to submit additional documentation if the initial review of the medical records indicated that the provider's first submission was insufficient to make a determination.

These aggressive actions successfully lowered the number of no documentation and insufficient documentation errors: the no documentation rate was reduced from 3.1

percent of the error rate in 2004 to .7 percent in 2005. The insufficient documentation error rate dropped from 4.1 percent in 2004 to 1.1 percent in 2005.

Beginning this year, HHS will be producing error rates twice a year. This increased availability of data will help HHS and its contractors to better target efforts to reduce error rates.

The CERT and HPMP statistical methodologies that HHS uses to calculate the Medicare national FFS error rate were reviewed by PricewaterhouseCoopers, LLP (PwC) in FY 2004. As a result of the review, PwC reported the "fee-for-service error rate to be statistically valid." In addition, GAO issued a report this past month entitled "CMS Methodology Adequate to estimate National Error Rate," which supports the adequacy of the methodology.

While the CERT program and HPMP have been useful for guiding our efforts in the Medicare FFS program, they do not provide a measure for payments in Medicare Advantage or the Medicare Prescription Drug Benefit Program. These programs added by the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA) represent about 18% of Medicare benefit outlays in FY 2006, and will grow in future years. HHS is in the process of evaluating how to best address improper payments in these programs.

HHS program integrity activities are primarily funded through the Medicare Integrity Program (MIP), established by the HIPAA. The MIP includes medical review and benefit integrity activities, provider education and training, Medicare Secondary Payer, and provider audits. HHS overall program integrity efforts are supplemented by funding from HHS program management account and other funds made available from the Health Care Fraud and Abuse Control (HCFAC) account. Additionally, new Medicare contractor reform legislation enacted through the MMA and the implementation of the new Healthcare Integrated General Ledger Accounting System, will further enhance MIP's effectiveness.

When Congress enacted the Deficit Reduction Act of 2005 (DRA), they included additional one-year funding for MIP in FY 2006 to help fund program integrity efforts in the new MMA Medicare Advantage and prescription drug benefit programs. DRA also included additional funding in FY 2006 and beyond for the Medicare-Medicaid data match (Medi-Medi) program in MIP.

The Administration's budget request for FY 2007 provides new resources for reducing improper payments. The budget includes $1.1 billion from the HCFAC account to fight improper Medicare and Medicaid payments and other health care fraud, waste, and abuse. To supplement these efforts, the Budget requests $118 million for efforts to protect the new Medicare prescription drug benefit and the MA program against fraud, waste, and error, as well as reduce errors in Medicaid. These funds are part of a

Government-wide proposal to fund program integrity activities through a discretionary cap adjustment.

HHS' actions to safeguard Federal funds are not just limited to the error rate programs described in this testimony. Program and fiscal integrity oversight is an integral part of the HHS financial management strategy and a high priority is placed on detecting and preventing improper or fraudulent payments. To that end, HHS has made significant changes to its program integrity activities in the past year. These changes include the creation of new divisions within HHS to focus on data analysis to identify problem areas through trend analysis of claims data and to oversee potential fraud areas in the discount drug card and prescription drug benefit programs.

Several specific actions have been taken by HHS to ensure that Federal dollars are being properly spent and fraudulent billings are stopped when they are detected. In particular, a satellite office in Los Angeles, California has been created to work in conjunction with an existing satellite office in Miami, Florida and has been instrumental in helping curtail fraudulent spending in high risk areas. Nine Medi-Medi projects that HHS has in place in key States also help identify aberrant spending through their matching of Medicare and Medicaid claims data. For the first time, Medicare claims and Medicaid claims are being jointly data mined to identify fraud and abuse. Data mining health care claims for fraudulent activity has been commonplace for several years now. However, by blending both programs' claims, patterns emerge that may not have been as evident when viewed separately. In many cases, a small number of fraudulent providers are exploiting both

programs. The knowledge gleaned from our Medi-Medi activities helps both programs identify vulnerabilities and plug those gaps. This project will help reduce overall payment errors. Since inception, the Medi-Medi projects have yielded 335 investigations with an estimated $182 million dollars at risk.

When instances of fraud or abuse are detected through any of these oversight mechanisms, HHS refers those cases to law enforcement. HHS has actively partnered with its law enforcement partners at the DOJ and OIG to aggressively pursue enforcement actions against those providers and suppliers that are found to be deliberately defrauding the Federal health care programs.

MEDICAID AND STATE CHILDREN'S HEALTH INSURANCE PROGRAM (SCHIP)

The Department's second largest program, Medicaid, accounts for over 30 percent of Department outlays. Unlike Medicare, it is administered primarily by State Governments. While the Federal Government provides financial matching payments to the States, each State is responsible for overseeing its Medicaid Program, and each State essentially designs and runs its own program within the Federal structure. The Federal Government pays the States a portion of their costs through a statutorily determined matching rate called the Federal Medical Assistance Percentage, or FMAP, that currently ranges between 50 and 76 percent. In FY 2006, total Medicaid expenditures – those that include both Federal and State contributions – are estimated to be approximately $340 billion.

In FY 2000, HHS adopted a Government Performance and Results Act (GPRA) goal to explore the feasibility of developing a methodology to estimate improper payments in the Medicaid Program. Beginning in 2001, HHS formally solicited States to participate in the development of a model to estimate payment accuracy. Only three States, Illinois, Texas, and Kansas, had attempted to estimate payment error in their respective State Medicaid Programs prior to HHS initiating pilot projects.

From FYs 2002-2005, HHS conducted the Payment Accuracy Measurement (PAM) and Payment Error Rate Measurement (PERM) pilot projects with extensive collaboration from participating States to determine a systematic means of measuring payment errors at the State and national levels. From these pilot projects, HHS was able to develop a methodology to estimate a State-specific payment error rate that would be the basis for the national Medicaid error rate as well as the SCHIP.

In FY 2006, contractors will measure a national Medicaid FFS error rate in 17 States based on medical reviews and data processing reviews. In FYs 2007 and 2008, contractors will measure national Medicaid and SCHIP FFS and managed care (MC) payments in 17 selected States, and the States will measure eligibility payment errors. Comprehensive Medicaid and SCHIP error rates (MC, FFS and eligibility) will be reported in the FY 2008 PAR.

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)

The TANF Program provides a capped pre-appropriated annual block grant of approximately $16.5 billion to States, Territories and eligible Tribal programs to help families transition from welfare to self-sufficiency. In the past several years, HHS has worked toward identifying strategies for estimating payment errors in the TANF Program. Four different activities were identified to assist in efforts to reduce the occurrence of improper payments in the TANF Program. These activities and related actions taken include:

- HHS is soliciting information from States on their practices for identifying and reducing improper payments in the TANF Program. HHS developed a survey instrument to solicit information on State systems and practices for identifying and reducing improper payments in the TANF Program that will be placed on a website for information sharing among the States;

- HHS conducted an improper payments pilot project with volunteer States in which the States had a more in-depth review of TANF expenditures during their OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* audit process. The objective of the pilot is to explore the viability of estimating improper payments using the A-133 audit process. HHS obtained agreement from one State (Alabama) to participate in the A-133 audit pilot project. In the expanded audit, the auditors used a statistical sample of a fixed size for a test of controls (attribute sampling method). The auditors reviewed 208

TANF cases to achieve a 95 percent confidence level with an expected deviation rate of 2.25 percent. The auditors reported an overall case error rate of 20 percent and a payment error rate of 3.9 percent. HHS contacted six States to increase the number of States participating in the A-133 pilot in FY 2006. Of the six States contacted, only three States agreed to participate. HHS will report on the results of the audits in these three States in the FY 2006 PAR;

- HHS initiated various activities to improve data match capability and increase State utilization of the Public Assistance Reporting Information System (PARIS). PARIS provides a Federal computer matching capability to assist State Public Assistance Agency (SPAA) efforts to validate client-reported information and identify potential improper payments (using client social security numbers) in the Medicaid, TANF and Food Stamps Programs. PARIS includes the Department of Veterans Affairs (VA) match and a VA spousal match; a Department of Defense/Office of Personnel Management match (active and retired military personnel and Federal employees); and an interstate match (duplicate payments made to the same client in more than one State). Every quarter, PARIS member States voluntarily choose whether, and in which match to participate (at no charge to them). The more States that join and conduct matches under PARIS, the wider the net of potential matches of information becomes available to PARIS member States to validate public assistance program client-reported information and identify potential improper payments – especially under the interstate match. HHS also engaged in a number of activities to improve data match capability and

usefulness, as well as increasing State utilization of PARIS. HHS will continue to work on expanding State participation and improving PARIS capability in FY 2006; and

- HHS is continuing to expand State access to the National Directory of New Hires (NDNH). The NDNH offers solutions to the prevalent under-detection by States and reporting of employment of TANF recipients. The NDNH was authorized under the welfare reform legislation to provide a national database of employment information for the purpose of collecting child support payments. The NDNH contains three database components: 1) new hires – information on new employees (filled out W-4 data); 2) quarterly wage data which includes information on individual employees from the records of State workforce and Federal agencies; and 3) unemployment compensation. HHS has initiated a demonstration project to provide State TANF agencies direct access to match their TANF caseloads against the databases. This effort began with a pilot effort in the District of Columbia (DC). In the DC pilot, 33 percent of the individuals submitted were matched to a possible job, and over 81 percent of those identified were verified as actually being employed. Of those verified as employed, DC closed 47 percent of the cases and reduced benefits for 53 percent of the cases. The vast majority of these recipients were not known to be employed by the State TANF agency. In FY 2005, all State TANF agencies were given access to the NDNH. To encourage use of the NDNH to carry out program responsibilities, HHS has provided States access to conduct up to 12 matches (one per month)

against the New Hires (W-4 data) database in FY 2006. Since July 2005, 31 States, DC and Puerto Rico have conducted matches. Together, these States and Territories account for 82 percent of the TANF caseload. During FY 2006, HHS will continue working with the States.

Although HHS is engaging in many activities which have been quite successful in identifying improper payments, HHS has not yet identified an efficient and effective approach for determining an estimate of improper payments in the TANF Program. One of our most significant challenges has been the flexibility that States have in the design and administration of the program. Also, there are statutory limitations with regard to the information that HHS can request of States. HHS is in the process of considering the work that has been done thus far and will be exploring other potential approaches in the coming months toward formulating a feasible and detailed plan for estimating payment errors in TANF.

HEAD START

The Head Start Program is an $6.8 billion program that provides grants to local public and non-profit agencies to provide comprehensive child development services to children and families, primarily preschoolers from low-income families. Head Start regulations allow Head Start programs to serve up to 10 percent of their enrolled children (49 percent in certain situations for tribal Head Start programs) from families who do not meet Head Start income requirements. Under Head Start legislation, grantees are required to be monitored at least once every three years. In FY 2004, HHS developed a methodology for

estimating a national Head Start payment error rate building on the required review process. HHS has reported Head Start payment error rates in FY 2004 (3.9 percent) and FY 2005 (1.6 percent).

FOSTER CARE

The Foster Care Program is a $4.8 billion program that is designed to help States provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering State agency and who need temporary placement and care outside their homes. Under the regulatory review promulgated at 45 CFR 1356.71, primary reviews are conducted in each State every three years by teams who review 80 cases selected from the State's title IV-E foster care population. These reviews are intended to recover title IV-E funds claimed by States for ineligible cases and, in conjunction with the required program improvement plan (PIP) for those States determined to be non-compliant, to help change their behavior so that subsequent reviews will result in lower error rates.

HHS developed a methodology for estimating a national payment error rate for the title IV-E Foster Care Program using data gathered in the eligibility reviews conducted in FY 2001 - 2004. The FY 2004 error rate was 10.33 percent and the FY 2005 final error rate was 8.6 percent.

HHS has begun measuring underpayments in the reviews that are being conducted in FY 2006. In the coming year, HHS will continue to measure error cases and begin implementing its plan to measure Foster Care administrative cost payment errors.

CCDF

The Child Care and Development Fund (CCDF), a $4.9 billion block grant program, is composed of three distinct funding elements (mandatory, discretionary and matching) authorized in two different statutes. During FY 2003, HHS began to work toward identifying strategies for estimating payment errors in CCDF. In FY 2004, HHS initiated an improper payment pilot project to assess the efforts of eleven States to prevent and reduce improper payments in their child care programs and to explore feasible strategies to measure and estimate improper payments for the program. HHS expanded State participation in the pilot project from eleven to eighteen States in FY 2005 and continued to work on a strategy for determining a payment error rate in the CCDF. Further, HHS partnered with Regional and State staff to test an error rate methodology in four States focused on the client eligibility process.

HHS drafted a report of the findings which includes a preliminary error rate calculated for each of the four States and an estimated analysis of the cost incurred by each State. HHS also developed a survey instrument to solicit information on a voluntary basis from States on State systems and practices for identifying and reducing improper payments in the CCDF.

CCDF gives the States flexibility in the design and administration of the Program which has presented challenges in developing a model or methodology that can be used by all States. HHS is developing a plan for applying the error rate methodology that was tested in the four States in FY 2005, to all the States over time. This methodology focuses on client eligibility and involves an intensive case review process to identify cases with errors, cases with improper payments, percentages of payments made in error, average amounts of improper payments, and minimum and maximum amounts of improper payments. It is expected that by the end of FY 2007, HHS will have error rates for nine States.

CONCLUSION

Mr. Chairman, and Subcommittee members, in conclusion, HHS has had numerous accomplishments and successes in its improper payment activities. In our largest program, Medicare, we are estimating improper payments and seeing the results of our corrective actions in a significant drop in the error rate. In our second largest program, Medicaid, we have developed and are working on implementing a plan for estimating improper payments. In two other programs, Head Start and Foster Care, we have achieved efficiencies in utilizing reviews required by legislation or regulation in developing our methodologies for determining estimates in these programs. In Medicare, Head Start and Foster Care Programs we experienced a decrease in improper payments through identification and implementation of appropriate corrective action. In the CCDF Program, we will begin implementing an approach for estimating payment errors in the near future. In the coming months, HHS plans to consider the results of TANF activities,

perform various analyses, and explore the viability of other strategies recently identified for estimating TANF improper payments. Our data matches and pilot activities have not only been successful in identifying and reducing improper payments, they have allowed us to build strong partnerships with the States in our endeavors to reduce improper payments. In the coming months, we will continue to work toward achieving compliance with the IPIA in overcoming the challenges we face in our TANF program and in implementing our plans for estimating improper payments in the Medicaid, SCHIP and CCDF Programs.

Thank you again for this opportunity to talk update you on the Department's improper payment initiatives. At this time, I will be pleased to answer any questions.

Mr. PLATTS. Thank you, Mr. Secretary.
Mr. Williams.

STATEMENT OF McCOY WILLIAMS

Mr. WILLIAMS. Thank you, Mr. Chairman, Congressman Duncan. I am pleased to be here today to discuss the governmentwide problem of improper payments in Federal programs and activities. Our work over the past several years has shown that improper payments are a long-standing, widespread, and significant problem in the Federal Government. The extent of the problem initially had been underestimated because only a limited number of agencies reported their annual payment accuracy rates and estimated improper payment amounts prior to the passage of the Improper Payments Information Act of 2002. Our work has also shown that primary causes of improper payments are lack of internal controls or a breakdown in existing controls.

The act has increased visibility over improper payments to a higher, more appropriate level of importance. It requires executive agency heads, based on guidance from OMB, to identify programs and activities susceptible to significant improper payments, estimate amounts improperly paid, and report on the amounts of improper payments and their actions to reduce them. Further, in fiscal year 2005, OMB began to separately track the elimination of improper payments under the President's management agenda.

Mr. Chairman, fiscal year 2005 marked the second year that Federal agencies governmentwide were required to report improper payment information in their performance and accountability reports. The governmentwide improper payment estimate for fiscal year 2005 exceeded $38 billion, but did not include any amounts for some of the highest risk programs, such as Medicaid, with outlays exceeding $181 billion for fiscal year 2005.

While the Federal Government has made progress under the leadership of OMB, significant challenges remain to effectively achieve the goals of the act. For example, while progress has been made in identifying programs susceptible to the risk of improper payments, the full magnitude of the problem remains unknown because some agencies have not yet prepared estimates of improper payments for all of their programs. We note in my written statement that seven major agency programs with outlays totaling about $228 billion have not reported improper payment estimates. These agencies have been required to report this information since 2002 with their fiscal year 2003 budget submissions under previous OMB Circular A–11 requirements. Further, agency auditors have identified major management challenges related to agencies' improper payment estimating methodologies and internal control weaknesses for programs susceptible to significant improper payments.

We recognize that measuring improper payments and designing and implementing actions to reduce them are not simple tasks and will not be easily accomplished. The ultimate success of the governmentwide effort to reduce improper payments depends on the level of importance each agency, the administration, and the Congress place on the efforts to implement the act.

In closing, I want to thank you and the members of the subcommittee for your continued interest in this issue and providing important leadership and oversight. I look forward to continuing to work with this subcommittee as well as Federal agencies to help address this problem.

This concludes my statement. I would be pleased to answer any questions that you or other members of the subcommittee may have.

[The prepared statement of Mr. Williams follows:]

United States Government Accountability Office

GAO

Testimony

Before the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

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FINANCIAL MANAGEMENT

Challenges Continue in Meeting Requirements of the Improper Payments Information Act

Statement of McCoy Williams, Director
Financial Management and Assurance

GAO-06-581T

GAO
Accountability·Integrity·Reliability
Highlights

Highlights of GAO-06-581T, a testimony before the Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

Why GAO Did This Study

Improper payments are a long-standing, widespread, and significant problem in the federal government. The Congress enacted the Improper Payments Information Act of 2002 (IPIA) to address this issue. Fiscal year 2005 marked the second year that agencies were required to report improper payment information under IPIA. One result of IPIA has been increased visibility over improper payments by requiring executive branch agencies to identify programs and activities susceptible to significant improper payments, estimate the amount of their improper payments, and report on the amounts of improper payments and their actions to reduce them in their annual performance and accountability reports (PAR).

Because of continued interest in addressing the governmentwide improper payments issue, GAO was asked to report on the progress made by agencies in complying with requirements of IPIA and the status of efforts to identify, reduce, and eliminate improper payments. As part of the review, GAO looked at (1) the extent to which agencies have performed risk assessments, (2) the annual amount of improper payments estimated, and (3) the amount of improper payments recouped through recovery audits.

www.gao.gov/cgi-bin/getrpt?GAO-06-581T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9095 or williamsm1@gao.gov.

April 5, 2006

FINANCIAL MANAGEMENT

Challenges Continue in Meeting Requirements of the Improper Payments Information Act

What GAO Found

The federal government continues to make progress in identifying programs susceptible to the risk of improper payments in addressing the new IPIA requirements. At the same time, significant challenges remain to effectively achieve the goals of IPIA. The 33 fiscal year 2005 PARs GAO reviewed show that some agencies still have not instituted systematic methods of reviewing all programs and activities, have not identified all programs susceptible to significant improper payments, or have not annually estimated improper payments for their susceptible programs as required by the act.

The full magnitude of the problem remains unknown because some agencies have not yet prepared estimates of improper payments for all of their programs. Of the 33 agencies reviewed, 18 reported over $38 billion of improper payments in 57 programs. This represented almost a $7 billion, or 16 percent, decrease in the amount of improper payments reported by 17 agencies in fiscal year 2004. However, as shown in the table below, the total improper payments estimate does not include 7 major agency programs with outlays totaling about $228 billion.

Major Programs That Have Not Reported Improper Payments Estimates

Dollars in billions

Agency	Program	Fiscal year 2005 outlays	Target fiscal year for estimating
Department of Agriculture	School Programs	$8.2	2007
Department of Health and Human Services	State Children's Insurance Program	5.1	2008
Department of Agriculture	Women, Infants, and Children	4.8	2008
Department of Health and Human Services	Medicaid	181.7	2008
Department of Health and Human Services	Child Care and Development Fund	4.9	Did not report
Department of Health and Human Services	Temporary Assistance for Needy Families	17.4	Did not report
Department of Housing and Urban Development	Community Development Block Grant	5.4	Did not report
Total		**$227.5**	

Sources: Office of Management and Budget and cited agencies' fiscal year 2005 PARs.

Further, agency auditors have identified major management challenges related to agencies' improper payment estimating methodologies and significant internal control weaknesses for programs susceptible to significant improper payments. In addition, two agency auditors cited noncompliance with IPIA in their annual audit reports.

For fiscal year 2005 PARs, agencies that entered into contracts with a total value exceeding $500 million annually were required to report additional information on their recovery audit efforts. Nineteen agencies reported reviewing over $300 billion in vendor payments, identifying approximately $557 million to be recovered, and actually recovering about $467 million.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the governmentwide problem of improper payments in federal programs and activities.[1] Our work over the past several years has demonstrated that improper payments are a long-standing, widespread, and significant problem in the federal government. The extent of the problem initially had been masked because only a limited number of agencies reported their annual payment accuracy rates and estimated improper payment amounts prior to the passage of the Improper Payments Information Act of 2002 (IPIA).[2]

Fiscal year 2005 marked the second year that federal agencies governmentwide were required to report improper payment information under IPIA in their performance and accountability reports (PAR). IPIA has increased visibility over improper payments to a higher, more appropriate level of importance by requiring executive agency heads, based on guidance from the Office of Management and Budget (OMB),[3] to identify programs and activities susceptible to significant improper payments, estimate amounts improperly paid, and report on the amounts of improper payments and their actions to reduce them. Further, in fiscal year 2005, OMB began to separately track the elimination of improper payments under the President's Management Agenda (PMA).

As collected from agencies' fiscal year 2005 PARs, the governmentwide improper payment estimate for fiscal year 2005 exceeded $38 billion, but did not include any amounts for some of the highest risk programs, such as Medicaid with outlays exceeding $181 billion for fiscal year 2005. I highlight these omissions later in my testimony. From our review, we noted that agencies made progress in addressing improper payments by implementing processes and controls to identify, estimate, and reduce improper payments. For example, agencies demonstrated improved error detection and measurement by addressing and reporting improper payments

[1]We use the term improper payments to include inadvertent errors, such as duplicate payments; payments for services not rendered; payments to ineligible beneficiaries; and payments resulting from fraud by program participants, federal employees, or both.

[2]Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

[3]OMB Memorandum M-03-13, *Improper Payments Information Act of 2002* (Public Law 107-300), May 21, 2003.

estimates for 17 newly reported programs[4] totaling about $1.2 billion, which are included in the governmentwide improper payments estimate now totaling over $38 billion. However, we noted that some agencies still have not instituted systematic methods of reviewing all programs and activities, have not identified all programs susceptible to significant improper payments, or have not annually estimated improper payments for their high-risk programs.

Because of the Subcommittee's interest in addressing the governmentwide improper payments issue, you asked us to report on the progress made by agencies in complying with requirements of IPIA and the status of efforts to identify, reduce, and eliminate improper payments. In my testimony today, I will discuss (1) the extent to which agencies have performed the required assessments to identify programs and activities that are susceptible to significant improper payments, (2) the annual amount of improper payments estimated by the reporting agencies, and (3) the amount of improper payments recouped through recovery audits. A list of related GAO products is provided at the end of this testimony.

The scope of our review included the 35 federal agencies[5] that the Department of the Treasury (Treasury) determined to be significant to the U.S. government's consolidated financial statements. Based on available information, we reviewed improper payment information reported by 33 agencies[6] in their fiscal year 2005 PARs or annual reports. We further reviewed OMB guidance on implementation of IPIA and its report on the results of agency-specific reports, significant findings, agency accomplishments, and remaining challenges. We did not independently validate the data that agencies reported in their PARs or annual reports or that OMB reported. However, we are providing these agency-reported data as descriptive information that will inform interested parties about the magnitude of governmentwide improper payments and other improper payments related information. We believe the data to be sufficiently reliable for this purpose. We conducted our work from February 2006 to

[4]Fiscal year 2005 was the first time that these agency programs were reported under the reporting requirements of IPIA.

[5]See *Treasury Financial Manual*, vol. 1, part 2, ch. 4700. A list of the 35 agencies is included in app. II.

[6]Two agencies' annual reports were not available prior to the end of our fieldwork.

March 2006 in accordance with generally accepted government auditing standards.

Background

Before I discuss our review of agencies' fiscal year 2005 PARs, I would like to summarize IPIA, related OMB initiatives, and statutory requirements for recovery audits. The act, passed in November 2002, requires executive branch agency heads to review their programs and activities annually and identify those that may be susceptible to significant improper payments. For each program and activity agencies identify as susceptible, the act requires them to estimate the annual amount of improper payments and to submit those estimates to the Congress. The act further requires that for programs for which estimated improper payments exceed $10 million, agencies are to report annually to the Congress on the actions they are taking to reduce those payments.

The act requires the Director of OMB to prescribe guidance for agencies to use in implementing IPIA. OMB issued guidance in May 2003[7] requiring the use of a systematic method for the annual review and identification of programs and activities that are susceptible to significant improper payments. The guidance defines significant improper payments as those in any particular program that exceed both 2.5 percent of program payments and $10 million annually. It requires agencies to estimate improper payments annually using statistically valid techniques for each susceptible program or activity. For those agency programs determined to be susceptible to significant improper payments and with estimated annual improper payments greater than $10 million, IPIA and related OMB guidance require each agency to report the results of its improper payment efforts for fiscal years ending on or after September 30, 2004. OMB guidance requires the results to be reported in the Management Discussion and Analysis section of the agency's PAR.

In August 2004, OMB established Eliminating Improper Payments as a new program-specific initiative under the PMA. This separate improper payments PMA program initiative began in the first quarter of fiscal year 2005. Previously, agency efforts related to improper payments were tracked along with other financial management activities as part of the Improving Financial Performance initiative of the PMA. The objective of establishing a

[7]OMB Memorandum M-03-13.

separate initiative for improper payments was to ensure that agency managers are held accountable for meeting the goals of IPIA and are therefore dedicating the necessary attention and resources to meeting IPIA requirements. With this new initiative, 15 agencies are to measure their improper payments annually, develop improvement targets and corrective actions, and track the results annually to ensure the corrective actions are effective.

In August 2005, OMB revised its Circular No. A-136, *Financial Reporting Requirements*, and incorporated IPIA reporting details from its May 2003 IPIA implementing guidance. Among other things, OMB Circular No. A-136 includes requirements for agencies to report on their risk assessments; annual improper payment estimates; corrective action plans; and recovery auditing efforts, including the amounts recovered in the current year. Section 831 of the National Defense Authorization Act for Fiscal Year 2002[8] contains a provision that requires all executive branch agencies entering into contracts with a total value exceeding $500 million in a fiscal year to have cost-effective programs for identifying errors in paying contractors and for recovering amounts erroneously paid. The legislation further states that a required element of such a program is the use of recovery audits and recovery activities. The law authorizes federal agencies to retain recovered funds to cover in-house administrative costs as well as to pay contractors, such as collection agencies. Agencies that are required to undertake recovery audit programs were directed by OMB to provide annual reports on their recovery audit efforts, along with improper payment reporting details[9] in an appendix to their PARs.

The fiscal year 2005 PARs, the second set of annual reports representing the results of agency assessments of improper payments for all federal programs, were due November 15, 2005. In our December 2005 report[10] on

[8]Pub. L. No. 107-107, div. A, title VIII § 831, 115 Stat. 1012, 1186 (Dec. 28, 2001) (codified at 31 U.S.C. §§ 3561-3567).

[9]In November 2005, OMB issued draft revisions to its IPIA implementing guidance. This revised implementing guidance, together with recovery auditing guidance, is to be consolidated into Parts I and II of future Appendix C to OMB Circular No. A-123, *Management's Responsibility for Internal Controls* (Dec. 21, 2004).

[10]For GAO's audit report on the U.S. government's consolidated financial statements for fiscal year 2005, see Department of the Treasury, *Financial Report of the United States Government* (Washington, D.C.: December 2005), 135-154, which can be found on GAO's Internet site at www.gao.gov.

the U.S. government's consolidated financial statements for the fiscal years ended September 30, 2005, and 2004, which includes our associated opinion on internal control, we reported improper payments as a material weakness in internal control. Specifically, we reported that while progress had been made to reduce improper payments, significant challenges remain to effectively achieve the goals of IPIA.

Some Agencies Still Have Not Assessed All Programs and Activities for Risk of Improper Payments

We reviewed the fiscal year 2005 PARs or annual reports for 33 of the 35 federal agencies that the Treasury determined to be significant to the U.S. government's consolidated financial statements and that were available as of March 2006. Of those 33 agencies, 23 reported that they had completed risk assessments for all programs and activities. See appendix II for detailed information on each agency. This was the same number of agencies that reported having completed risk assessments in our prior year review.[11] The remaining 10 agencies either were silent on IPIA reporting details in their PARs or annual reports or had not yet assessed the risk of improper payments for all their programs.

In addition, we noted that selected agency auditors reviewed agencies' risk assessment methodologies and identified issues of noncompliance or other deficiencies. For example, auditors for the Departments of Justice and Homeland Security cited agency noncompliance with IPIA in their fiscal year 2005 annual audit reports, primarily caused by inadequate risk assessments. The Department of Justice auditor stated that one agency component had not established a program to assess, identify, and track improper payments. The agency acknowledged this noncompliance in its PAR as well. The Department of Homeland Security (DHS) auditor reported that the department did not institute a systematic method of reviewing all programs and identifying those it believed were susceptible to significant erroneous payments. This was the second consecutive year that the auditor reported IPIA noncompliance for DHS. Although the auditors identified the agency's risk assessment methodology as inadequate, DHS reported in its PAR that it had assessed all of its programs for risk. A third agency auditor reported that the Department of Agriculture needed to strengthen its program risk assessment methodology to identify and test critical internal controls over program payments totaling over $100 million.

[11]GAO, *Financial Management: Challenges in Meeting Requirements of the Improper Payments Information Act*, GAO-05-417 (Washington, D.C.: Mar. 31, 2005).

Magnitude of Improper Payments Is Still Unknown

As I highlighted in my introduction, agencies' reported estimates of improper payments for fiscal year 2005 exceeded $38 billion. This represents almost a $7 billion, or 16 percent, decrease in the amount of improper payments reported by 17 agencies in fiscal year 2004.[12] On the surface, this appears to be good news. However, the magnitude of the governmentwide improper payment problem remains unknown. This is because, in addition to not assessing all programs, some agencies had not yet prepared estimates of significant improper payments for all programs determined to be at risk. Specifically, of the 33 agency PARs included in our review, 18 agencies reported improper payment estimates totaling in excess of $38 billion for some or all of their high-risk programs. The $38 billion represents estimates for 57 programs. Of the remaining 15 agencies that did not report estimates, 8 said they did not have any programs susceptible to significant improper payments, 6 were silent about whether they had programs susceptible to significant improper payments, and the remaining 1 agency identified programs susceptible to significant improper payments and said it plans to report an estimate by fiscal year 2007. Further details are included in appendix I.

Regarding the reported $7 billion decrease in the governmentwide improper payment estimate for fiscal year 2005, we determined that this decrease was primarily due to a $9.6 billion reduction in the Department of Health and Human Services's (HHS) Medicare program improper payment estimate, which was partially offset by more programs reporting estimates of improper payments, resulting in a net decrease of $7 billion. Based on our review, HHS's $9.6 billion decrease[13] in its Medicare program improper payment estimate was principally due to its efforts to educate health care providers about its Medicare error rate testing program and the importance of responding to its requests for medical records to perform detailed statistical reviews of Medicare payments. HHS reported that these more intensive efforts had dramatically reduced the number of "no documentation" errors in its medical reviews. The relevance of this significant decrease is that when providers do not submit documentation to

[12]In their fiscal year 2005 PARs, selected agencies updated their fiscal year 2004 improper payment estimates to reflect changes since issuance of their fiscal year 2004 PARs. These updates increased the governmentwide improper payment estimate for fiscal year 2004 from $45 billion to $46 billion.

[13]HHS reported an improper payment estimate for its Medicare program of $12.1 billion for fiscal year 2005 and $21.7 billion for fiscal year 2004.

justify payments, these payments are counted by HHS as erroneous for purposes of calculating an annual improper payment estimate for the Medicare program. HHS reported marked reductions in its error rate attributable to (1) nonresponses to requests for medical records and (2) insufficient documentation submitted by the provider. We noted that these improvements partially resulted from HHS extending the time that providers have for responding to documentation requests from 55 days to 90 days.

These changes primarily affected HHS's processes related to its efforts to perform detailed statistical reviews for the purposes of calculating an annual improper payment estimate for the Medicare program. While this may represent a refinement in the program's improper payment estimate, the reported reduction may not reflect improved accountability over program dollars. Our work did not include an overall assessment of HHS's estimating methodology. However, we noted that the changes made for the fiscal year 2005 estimate were not related to improvements in prepayment processes, and we did not find any evidence that HHS had significantly enhanced its preventive controls in the Medicare payment process to prevent future improper payments. Therefore, the federal government's progress in reducing improper payments may be exaggerated because the reported improper payments decrease in the Medicare program accounts for the bulk of the overall reduction in the governmentwide improper payments estimate. Mr. Chairman, I think the only valid observation at this time is that improper payments are a serious problem, agencies are working on this issue at different paces, and the extent of the problem and the level of effort necessary to control these losses are as yet unknown.

What is clear is that there is a lot of work to do in this area. Agency auditors have reported major management challenges related to agencies' improper payment estimating methodologies and highlighted internal control weaknesses that continue to plague programs susceptible to significant improper payments. For example, the Department of Labor's agency auditor reported that inadequate controls existed in the processing of medical bill payments for its Federal Employees' Compensation Act program.[14] As a result, medical providers were both overpaid and underpaid. Internal control weaknesses were also identified in the Small Business Administration's (SBA) 7(a) Business Loan program. SBA did not

[14] This act was repealed and parts of it are now codified in code sections of Title 1, 5, and 18 of the United States Code.

consistently identify instances of noncompliance with its own requirements, resulting in improper payments. In another example, agency auditors for the Department of Education (Education) raised concerns about the methodology Education used to estimate improper payments for its Federal Student Aid program. The auditors reported that the methodology used did not provide a true reflection of the magnitude of improper payments in the student loan programs. To overcome these major management challenges, agencies will need to aggressively deploy more innovative and sophisticated approaches to correct such deficiencies and identify and reduce improper payments.

Also, I would like to point out that the fiscal year 2005 governmentwide improper payments estimate of $38 billion did not include seven major programs, with outlays totaling over $227 billion for fiscal year 2005. OMB had specifically required these seven programs to report selected improper payment information for several years before IPIA reporting requirements became effective.[15] After passage of IPIA, OMB's implementing guidance required that these programs continue to report improper payment information under IPIA. As shown in table 1, the fiscal year 2005 governmentwide improper payment estimate does not include one of the largest federal programs determined to be susceptible to risk, HHS's Medicaid program, with outlays exceeding $181 billion annually.

[15]Prior to the governmentwide IPIA reporting requirements beginning with fiscal year 2004, former section 57 of OMB Circular No. A-11, required certain agencies to submit similar information, including estimated improper payment target rates, target rates for future reductions in these payments, the types and causes of these payments, and variances from targets and goals established. In addition, these agencies were to provide a description and assessment of the current methods for measuring the rate of improper payments and the quality of data resulting from these methods.

Table 1: Major Programs That Did Not Report Improper Payment Estimates as Previously Required by OMB and Target Dates for Estimates

Dollars in billions

Agency/program	Fiscal year 2005 outlays	Target date for improper payment estimates: Fiscal year 2007	Fiscal year 2008	Did not report target date
Department of Agriculture—School Programs	$8.2	X		
Department of Health and Human Services—State Children's Insurance Program	5.1		X	
Department of Agriculture—Women, Infants, and Children	4.8		X	
Department of Health and Human Services—Medicaid	181.7		X	
Department of Health and Human Services—Child Care and Development Fund	4.9			X
Department of Health and Human Services—Temporary Assistance for Needy Families	17.4			X
Department of Housing and Urban Development—Community Development Block Grant	5.4			X
Total	**$227.5**	**1**	**3**	**3**

Sources: OMB and cited agencies' fiscal year 2005 PARs.

Of these seven programs, four programs reported that they would be able to estimate and report on improper payments sometime within the next 3 fiscal years, but could not do so for fiscal year 2005. For the remaining three programs, the agencies did not estimate improper payment amounts in their fiscal year 2005 PARs and were silent about whether they would report estimates in the future. As a result, improper payments for these programs susceptible to risk will not be known for at least several years, even though these agencies had been required to report this information since 2002, with their fiscal year 2003 budget submissions under previous OMB Circular No. A-11 requirements. OMB reported that some of the agencies were unable to determine the rate or amount of improper payments because of measurement challenges or time and resource constraints, which OMB expects to be resolved in future reporting years. However, in the case of the HHS programs, the agency auditor recognized

this lack of reporting as a reportable condition related to the reliability of the department's financial statements. In the component of its fiscal year 2005 audit report dealing with compliance with laws and regulations, the auditor reported that HHS potentially had not fully complied with IPIA because nationwide improper payment estimates and rates for significant health programs were under development and the agency did not expect to complete the estimation process until fiscal year 2007.

Also, as mentioned earlier and shown in appendix I, 8 of 33 agencies said they did not have programs susceptible to significant amounts of improper payments. However, certain programs associated with the government's response to mitigate the effects of Hurricane Katrina, one of the largest natural disasters in our nation's history, had material risks of improper payments. In order to respond to the immediate needs of disaster victims and to rebuild the affected areas, government agencies used streamlined eligibility verification requirements for delivery of benefits and expedited contracting methods in order to commit contractors to begin work immediately. These expedited processes can increase the potential for improper payments.

For example, from our recent review of the Federal Emergency Management Agency's (FEMA) Individuals and Households Program (IHP)[16] we identified significant flaws in the process for registering disaster victims for assistance payments. As part of its relief efforts, FEMA had distributed nearly $5.4 billion in IHP assistance, with $2.3 billion in the form of expedited assistance, as of mid-December 2005. These payments were made via checks, electronic fund transfers, and debit cards. We found limited procedures in place designed to prevent, detect, and deter certain types of duplicate and potentially fraudulent disaster registrations. As a result, we determined that thousands of registrants provided incorrect Social Security numbers, dates of birth, and addresses to obtain assistance and found that FEMA made duplicate assistance payments to about 5,000 of the nearly 11,000 debit card recipients.

[16]GAO, *Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse*, GAO-06-403T (Washington, D.C.: Feb. 13, 2006).

In one example of expedited contracting, the Department of Transportation (DOT) Office of Inspector General (OIG)[17] determined that DOT had overpaid a contractor by approximately $32 million for services to provide buses for evacuating hurricane victims from the New Orleans area. According to the OIG, the overpayment occurred because DOT had made partial payments based on initial task estimates and without documentation that substantiated the dollar amount of services actually provided to date. Although DOT promptly recovered the funds, the nature of these types of exigencies to adequately respond to the hurricane victims makes it likely that future improper payments are likely to occur. As a result, selected agencies, such as DHS and DOT, have said they plan to perform concentrated reviews of payments related to relief efforts to identify the extent of improper payments, develop actions to reduce these types of payments, and enhance internal controls for future relief efforts.

Additional Reporting Requirements for Recovery Auditing Information

Section 831 of the National Defense Authorization Act for Fiscal Year 2002 provides an impetus for applicable agencies to systematically identify and recover contract overpayments. Recovery auditing is another method that agencies can use to recoup detected improper payments. Recovery auditing focuses on the identification of erroneous invoices, discounts offered but not received, improper late penalty payments, incorrect shipping costs, and multiple payments for single invoices. Recovery auditing can be conducted in-house or contracted out to recovery audit firms. The law authorizes federal agencies to retain recovered funds to cover in-house administrative costs as well as to pay contractors, such as collection agencies. Any residual recoveries, net of these program costs, shall be credited back to the original appropriation from which the improper payment was made, subject to restrictions as described in legislation. As we previously reported,[18] with the passage of this law, the Congress has provided agencies a much needed incentive for identifying and reducing their improper payments that slip through agency prepayment controls. The techniques used in recovery auditing offer the opportunity for identifying weaknesses in agency internal controls, which

[17]Department of Transportation Office of Inspector General, *Internal Controls Over the Emergency Disaster Relief Transportation Services Contract*, AV-2006-032 (Washington, D.C.: Jan. 20, 2006).

[18]GAO, *Financial Management: Challenges Remain in Addressing the Government's Improper Payments*, GAO-03-750T (Washington, D.C.: May 13, 2003).

can be modified or upgraded to be more effective in preventing improper payments before they occur.

For fiscal year 2005, OMB expanded the type of recovery auditing information that applicable agencies are to report in their annual PARs. Prior to fiscal year 2005, applicable agencies were only required to report on the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted or strengthened to prevent further occurrences. In addition, OMB was not reporting on a governmentwide basis agencies' recovery audit activities in its annual report on agencies' efforts to improve the accuracy and integrity of federal payments.

In fiscal year 2005, OMB revised its recovery auditing reporting requirements and required applicable agencies to provide more detailed information on their recovery auditing activities. Specifically, in addition to the prior year requirements, agencies that entered into contracts with a total value exceeding $500 million annually were required to discuss any contract types excluded from review and justification for doing so. In addition, agencies were required to report, in table format, various amounts related to contracts subject to review and actually reviewed, contract amounts identified for recovery and actually recovered, and prior year amounts.

For fiscal year 2005, 19 agencies[19] reported entering into contracts with a total value in excess of the $500 million reporting threshold. These 19 agencies reported reviewing more than $300 billion in contract payments to vendors. From these reviews, agencies reported identifying about $557 million in improper payments for recovery and reported actually recovering about $467 million, as shown in table 2.

[19]We identified one additional agency—the Department of Commerce—that should have reported recovery auditing amounts in its PAR and followed the required reporting format included in OMB's guidance. According to Commerce, the results of its recovery audit revealed no significant improper payments or internal control deficiencies. However, subsequent to its PAR issuance, Commerce reported to OMB that based on its final recovery auditing report, the amount identified for recovery totaled $96,354 and the amount actually recovered totaled $84,551 for fiscal year 2005. We also noted that the Department of Labor did not follow the required reporting format included in OMB's guidance. Labor reported that no improper payments were noted from its recovery auditing activities for fiscal year 2005 and that recovery audit efforts were not necessary.

Table 2: Improper Payment Amounts Identified and Recovered in Fiscal Year 2005

	Department or agency	Amount identified for recovery in fiscal year 2005	Amount recovered in fiscal year 2005
1	Agency for International Development	$5,900,000	$5,782,000
2	Department of Agriculture	333,000	189,000
3	Department of Defense	473,000,000	418,500,000
4	Department of Education	274,367	112,506
5	Department of Energy	10,600,000	9,500,000
6	Department of Health and Human Services	2,100,000[a]	14,430
7	Department of Homeland Security	2,191,000	1,207,000
8	Department of Housing and Urban Development[b]	0	0
9	Department of the Interior	1,548,620	195,479
10	Department of Justice	1,044,320	765,086
11	National Aeronautics and Space Administration	617,442	617,442
12	Department of State	5,350,000	5,190,000
13	Department of Transportation	2,663,984	2,663,984
14	Department of the Treasury	428,977	364,680
15	Department of Veterans Affairs	23,001,137	12,957,264
16	Environmental Protection Agency	130,000	130,000
17	General Services Administration	26,638,654	8,317,187
18	Social Security Administration	317,000	50,000
19	Tennessee Valley Authority	909,573	443,763
	Total	**$557,048,074**	**$466,999,821**

Sources: OMB and cited agencies' fiscal year 2005 PARs.

[a]HHS reported that of the $2.1 million identified as potential improper payments, $1.3 million was determined to be related to payments that were either voided, subsequently credited, or both.

[b]For fiscal year 2005, the Department of Housing and Urban Development (HUD) reported that contracts subject to review totaled about $2.3 billion. Of this amount, HUD reported reviewing about $207 million in contract payments, but identified no improper payments for recovery.

Concluding Observations

In closing, I want to say that we recognize that measuring improper payments and designing and implementing actions to reduce them are not simple tasks and will not be easily accomplished. The ultimate success of the governmentwide effort to reduce improper payments depends, in part, on each agency's continuing diligence and commitment to meeting the

requirements of IPIA and the related OMB guidance. The level of importance each agency, the administration, and the Congress place on the efforts to implement the act will determine its overall effectiveness and the level to which agencies reduce improper payments and ensure that federal funds are used efficiently and for their intended purposes. With budgetary pressures rising across the federal government, and the Congress's and the American public's increasing demands for accountability over taxpayer funds, identifying, reducing, and recovering improper payments become even more critical. Fulfilling the requirements of IPIA will require sustained attention to implementation and oversight to monitor whether desired results are being achieved.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions that you or other members of the Subcommittee may have.

Contacts and Acknowledgments

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Appendix I

Agency Improper Payment Estimate Reporting in Fiscal Year 2005

	Department or agency	Agency reported estimate for one or more programs	Agency did not report estimate: Agency reported that no programs were susceptible to significant improper payments	Agency did not report estimate: Agency silent as to whether it had programs susceptible to significant improper payments	Agency did not report estimate: Agency reported future date to report estimate
1	Agency for International Development			X	
2	Department of Agriculture	X			
3	Department of Commerce		X		
4	Department of Defense	X			
5	Department of Education	X			
6	Department of Energy	X			
7	Environmental Protection Agency	X			
8	Export-Import Bank of the United States			X	
9	Federal Communications Commission				X
10	Federal Deposit Insurance Corporation			X	
11	General Services Administration		X		
12	Department of Health and Human Services	X			
13	Department of Homeland Security		X		
14	Department of Housing and Urban Development	X			
15	Department of the Interior		X		
16	Department of Justice		X		
17	Department of Labor	X			
18	National Aeronautics and Space Administration		X		
19	National Science Foundation	X			
20	Nuclear Regulatory Commission		X		
21	Office of Personnel Management	X			
22	Pension Benefit Guaranty Corporation			X	
23	Postal Service			X	

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			Agency did not report estimate		
	Department or agency	Agency reported estimate for one or more programs	Agency reported that no programs were susceptible to significant improper payments	Agency silent as to whether it had programs susceptible to significant improper payments	Agency reported future date to report estimate
24	Railroad Retirement Board	X			
25	Securities and Exchange Commission		X		
26	Small Business Administration	X			
27	Smithsonian Institution			X	
28	Social Security Administration	X			
29	Department of State	X			
30	Tennessee Valley Authority	X			
31	Department of Transportation	X			
32	Department of the Treasury	X			
33	Department of Veterans Affairs	X			
	Total	**18**	**8**	**6**	**1**

Source: GAO's analysis of cited agencies' fiscal year 2005 performance and accountability reports (PAR) or annual reports

Appendix II

Improper Payment Estimates Reported in Agency Fiscal Years 2004 and 2005 PARs or Annual Reports

Dollars in millions

	Department or agency		Program or activity	Improper payment estimates reported 2004	Improper payment estimates reported 2005	Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
1.	Agency for International Development	1.	All programs and activities	0.0[a]	0.0[a]			
2.	Department of Agriculture		All programs and activities				X	
		2.	Marketing Assistance Loan Program (previously Commodity Loan Programs)	0.0[a]	$45.0	X		
		3.	Food Stamp Program	$1,400.0[b]	1,432.0	X		
		4.	School Programs[c]	0.0	0.0	X		
		5.	Women, Infants, and Children[c]	0.0	0.0	X		
		6.	Child and Adult Care Food Program	0.0[a]	0.0[a]			
		7.	Wildland Fire Suppression Management	0.0[a]	73.0			
		8.	Rental Assistance Program	20.0[b]	27.0			
		9.	Federal Crop Insurance Corporation	125.0	28.0			
		10.	Farm Security and Rural Investment	0.0[a]	16.0			
		11.	Milk Income Loss Contract Program	0.0[a]	0.2			
		12.	Loan Deficiency Payments	0.0[a]	5.0			
3.	Department of Commerce	13.	All programs and activities	0.0	0.0		X	X
4.	Department of Defense		All programs and activities				X	

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Dollars in millions

	Department or agency		Program or activity	Improper payment estimates reported 2004	2005	Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
		14.	Military Retirement Fund	66.0[b]	49.3	X		X[d]
		15.	Military Health Benefits	99.6[b]	150.0	X		X[d]
		16.	Military Pay	0.0[a]	432.0			
5.	Department of Education		All programs and activities				X	
		17.	Student Financial Assistance—Pell Grants[e]	571.0[b]	617.0	X		
		18.	Student Financial Assistance—Federal Family Education Loan[g]	10.0[b]	16.0			
		19.	Title I	0.0[a]	149.0	X		X[d]
6.	Department of Energy	20.	Payment programs	20.3	14.5		X	X[d]
7.	Environmental Protection Agency	21.	Clean Water State Revolving Funds	10.3	3.1	X		X
		22.	Drinking Water State Revolving Fund	0.0[f]	0.0[f]	X		X
8.	Export-Import Bank of the United States[i]	23.	All programs and activities	0.0	0.0			
9.	Farm Credit System Insurance Corporation[h]	24.	All programs and activities	0.0	0.0			
10.	Federal Communications Commission		All programs and activities				X	
		25.	Universal Service Fund's Schools and Libraries	0.0[a]	0.0[a]			
		26.	High Cost Support Program	0.0[a]	0.0[a]			

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Dollars in millions

	Department or agency		Program or activity	Improper payment estimates reported 2004	2005	Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
11.	Federal Deposit Insurance Corporation[i]	27.	All programs and activities	0.0	0.0			
12.	General Services Administration	28.	All programs and activities	0.0	0.0		X	X
13.	Department of Health and Human Services		All programs and activities				X	
		29.	Medicaid[c]	0.0	0.0	X		X
		30.	Medicare	21,700.0	12,100.0	X		X
		31.	Head Start	255.0	110.0	X		X[d]
		32.	Temporary Assistance for Needy Families[c]	0.0	0.0	X		X
		33.	Foster Care—Title IV-E	186.0[b]	182.0	X		X
		34.	State Children's Insurance Program[c]	0.0	0.0	X		X
		35.	Child Care and Development Fund[c]	0.0	0.0	X		X
14.	Department of Homeland Security	36.	All programs and activities	0.0	0.0		X	X
15.	Department of Housing and Urban Development		All programs and activities				X	
		37.	Low Income Public Housing	356.0	326.0[g]	X		
		38.	Section 8 Tenant Based	840.0	551.0[g]	X		
		39.	Section 8 Project Based	511.0	324.0[g]	X		
		40.	Community Development Block Grant (Entitlement Grants, States/Small Cities)[c]	0.0	0.0	X		X

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Dollars in millions

	Department or agency		Program or activity	Improper payment estimates reported 2004	2005	Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
		41.	Federal Housing Administration's Single Family Acquired Asset Management System	26.1	2.2			X
		42.	Public Housing Capital Fund	0.0[a]	133.5			
16.	Department of the Interior	43.	All programs and activities	0.0	0.0		X	X
17.	Department of Justice	44.	All programs and activities	0.0	0.0			X
18.	Department of Labor		All programs and activities				X	
		45.	Unemployment Insurance	3,861.0	3,267.0	X		
		46.	Federal Employees' Compensation Act	6.4	3.3	X		X
		47.	Workforce Investment Act	0.0[a]	7.9	X		X
19.	National Aeronautics and Space Administration	48.	All programs and activities	0.0	0.0		X	X
20.	National Credit Union Administration[h]	49.	All programs and activities	0.0	0.0			
21.	National Science Foundation	50.	Research and Education Grants and Cooperative Agreements	4.4	1.1	X	X	X
22.	Nuclear Regulatory Commission	51.	All programs and activities	0.0	0.0		X	X
23.	Office of Personnel Management		All programs and activities				X	

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Dollars in millions

	Department or agency		Program or activity	Improper payment estimates reported 2004	2005	Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
		52.	Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)	197.7	152.2	X		X
		53.	Federal Employees Health Benefits Program	86.1	196.5	X		X
		54.	Federal Employees Group Life Insurance	2.1	2.0	X		X
24.	Pension Benefit Guaranty Corporation[i]	55.	All programs and activities	0.0	0.0			
25.	Postal Service[i]	56.	All programs and activities	0.0	0.0			
26.	Railroad Retirement Board		All programs and activities				X	
		57.	Retirement and Survivors Benefits	147.9[b]	150.6	X		X[d]
		58.	Railroad Unemployment Insurance Benefits	2.6[b]	2.3	X		X
27.	Securities and Exchange Commission	59.	All programs and activities	0.0	0.0			X
28.	Small Business Administration		All programs and activities				X	
		60.	7(a) Business Loan Program	0.0[a]	31.4	X		
		61.	504 Certified Development Companies	0.0	0.0	X		X
		62.	Disaster Assistance	1.1	1.6	X		X
		63.	Small Business Investment Companies	129.0	10.5	X		X[d]

(Continued From Previous Page)

Dollars in millions

	Department or agency		Program or activity	Improper payment estimates reported 2004	2005	Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
29.	Smithsonian Institution[i]	64.	All programs and activities	0.0	0.0			
30.	Social Security Administration		All programs and activities				X	
		65.	Old Age and Survivors' Insurance	1,707.0	3,681.0	X		X[d]
		66.	Disability Insurance	0.0[f]	0.0[f]	X		X[d]
		67.	Supplemental Security Income Program	2,639.0	2,910.0	X		
31.	Department of State		All programs and activities				X	
		68.	International Narcotic and Law Enforcement Affairs-Narcotics Program	1.7	0.6			
		69.	International Information Program—U.S. Speaker and Specialist Program	1.4	1.9			
		70.	Vendor payments	0.8	0.4			X
		71.	Structures and Equipment	0.3[b]	0.2			X
32.	Tennessee Valley Authority	72.	Payment programs	8.1	36.3			
33.	Department of Transportation		All programs and activities				X	
		73.	Airport Improvement Program	0.0[j]	0.0[j]	X		X
		74.	Highway Planning and Construction	0.0[j]	0.0[j]	X		X
		75.	Federal Transit—Capital Investment Grants	0.0[j]	0.0[j]	X		X
		76.	Federal Transit—Formula Grants	0.0[j]	0.0[j]	X		X

(Continued From Previous Page)

Dollars in millions

	Department or agency		Program or activity	Improper payment estimates reported 2004	2005	Previous OMB Circular No. A-11 reporting requirements	Agency reported it had assessed all programs	Programs that the agency reported were not susceptible to significant improper payments
34.	Department of the Treasury		All programs and activities				X	
		77.	Earned Income Tax Credit	10,300.0[b]	10,500.0	X		
35.	Department of Veterans Affairs		All programs and activities				X	
		78.	Compensation	302.4[b]	322.9	X		
		79.	Dependency and Indemnity Compensation	0.0[f]	0.0[f]	X		
		80.	Education programs	70.0[b]	64.0			
		81.	Pension	280.7[b]	261.0	X		
		82.	Insurance programs	0.3[b]	0.3	X		X
		83.	Loan Guaranty	6.3	4.2			
		84.	Vocational Rehabilitation	9.5	9.8			
	Total			**$45,962.1**	**$38,404.8**	**46**	**23**	**43**

Source: GAO's analysis of cited agencies' fiscal year 2005 performance and accountability reports (PAR) or annual reports.

[a]Agency did not report an annual improper payment estimate.

[b]Fiscal year 2004 estimates were updated to the revised estimates reported in the fiscal year 2005 PARs.

[c]See table 1 of this testimony.

[d]The agency reported that this program was not high risk, meaning not susceptible to significant improper payments because it did not meet the Office of Management and Budget (OMB) reporting threshold of exceeding both $10 million and 2.5 percent of program payments.

[e]Student Financial Assistance—Pell Grants and Federal Family Education Loan are combined together as Student Financial Assistance in OMB Circular No. A-11, Section 57.

[f]Agency combined with the above program.

[g]An additional $266 million of improper payments exist for these three programs. In its PAR, HUD did not provide a breakout of this amount among the three programs.

[h]Agency fiscal year 2005 PAR or annual report information not available as of the end of our fieldwork.

[i]Agency did not address improper payments or the Improper Payments Information Act (IPIA) requirements for this program in its fiscal year 2005 PAR or annual report.

[j]Agency reported that the annual improper payment amount was zero.

Related GAO Products

Financial Management: Challenges Remain in Meeting Requirements of the Improper Payments Information Act. GAO-06-482T. Washington, D.C.: March 9, 2006.

Financial Management: Challenges in Meeting Governmentwide Improper Payment Requirements. GAO-05-907T. Washington, D.C.: July 20, 2005.

Financial Management: Challenges in Meeting Requirements of the Improper Payments Information Act. GAO-05-605T. Washington, D.C.: July 12, 2005.

Financial Management: Challenges in Meeting Requirements of the Improper Payments Information Act. GAO-05-417. Washington, D.C.: March 31, 2005.

Financial Management: Fiscal Year 2003 Performance and Accountability Reports Provide Limited Information on Governmentwide Improper Payments. GAO-04-631T. Washington, D.C.: April 15, 2004.

Financial Management: Status of the Governmentwide Efforts to Address Improper Payment Problems. GAO-04-99. Washington, D.C.: October 17, 2003.

Financial Management: Effective Implementation of the Improper Payments Information Act of 2002 Is Key to Reducing the Government's Improper Payments. GAO-03-991T. Washington, D.C.: July 14, 2003.

Financial Management: Challenges Remain in Addressing the Government's Improper Payments. GAO-03-750T. Washington, D.C.: May 13, 2003.

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Mr. PLATTS. Thank you, Mr. Williams. I appreciate all of your testimonies, as well as the written documentation you have given us. And where I would like to begin is, as I read through all the written testimonies last evening, a couple issues kind of jumped out and followup from where we were a year ago. And I think maybe, Dr. Combs, you in a broad sense and, Mr. Secretary, to you specifically, with your Department, you know, this act is now 4 years past its enactment, and yet we have seven agencies not reporting in any sense about their improper payments. And a good number of those are at HHS.

I guess first, if we could start—you know, I read some of the explanation of where we are, especially with HHS and the cooperation of States when it is Medicaid and some of the Federal-State partnerships, but, you know, we still are 4 years down the line, and we are still talking about what we are going to do, and perhaps in 2007 or 2008 that we will start to see some estimates.

I guess what I am looking for is a more specific answer to why it is taking so long in the general sense and then specific to HHS. Dr. Combs.

Ms. COMBS. I think that is certainly a valid question, and, Mr. Chairman, I certainly add my commendation to you and this committee for keeping this in the forefront of all of our minds, because a lot of what we can and should be doing in the departments and agencies, we must do as a continual partnership, and we truly appreciate the efforts of you and your staff in helping us with that.

Mr. PLATTS. And I wanted to say up front that, one, I do not want to diminish the good-faith effort that OMB and the departments and agencies are making, and to acknowledge that progress has been made in the areas where we have been able to target it. And that kind of is the reason for the question. We are not able to maybe target if we do not actually have a good understanding of what is out there on some of these other areas. But I agree, it is a partnership, and it has been a very important working relationship between the departments, agencies, OMB, and this committee. I apologize for the interruption.

Ms. COMBS. No. Thank you, Mr. Chairman. I do not consider that an interruption at all. I look forward to this kind of dialog and continually having this kind of dialog as we work through these very, very tough issues together.

I guess since we know my good friend Charlie Johnson is here and he represents what I consider to be some of the best of the best in the CFO community, and working with folks like him on a day-to-day basis in the CFO community and knowing of their commitment and their absolute resilience to making sure that we are doing better by the taxpayer's dollar on a day-to-day basis, is an extremely important avenue for us to have and to continue to work through in these departments. And knowing he is going to be here to chime in on some of these more specifics, one of the things I would like to just put on the record and kind of step back for a minute and let us remind ourselves of is if you look at the total Federal outlays—and, Mr. Duncan, I specifically was intrigued by your discussion of how you continue to convey this to the American people, because that is very important for us as well.

But if you look at the $2.5 trillion we have in outlays, and we know that beginning in 2004 we looked at $1.5 trillion of those, so we identified—about 60 percent of all of our Federal outlays were identified as being high risk susceptible.

And if you take that down just another step, we had $1.2 trillion or 85 percent of those that we are now looking at in terms of the error in our improper payments, we have error rates for 85 percent of that. And, in addition, we have also—thanks to the help of this subcommittee, we have been looking at contract payments.

So if you look at the 15 percent that we do not have measurements for right now that we are going to be addressing in future years, that 15 percent is $300 billion, and that is a lot of money by anybody's standards. But when you look at that and compare it to where we are stepping down from, and stepping down from that $2.5 trillion, that makes a lot of sense in terms of where we are. But we have about 28 percent or $659 billion in contract payments that we have looked at.

And then if you look at the rest of where that $2.5 trillion is, you have about $341 billion or so in other payments that really are not related to improper payments. It is payments on the debt or compensation.

So if you go back to the programs, just the programs that we are looking at, you see that we can look at ourselves and, in good faith, say, yes, we have really been doing a lot of good work here. And I think it is important to step back from the total corpus of what the total Federal outlays are and keep that in mind.

So, yes, we are concerned about that remaining 15 percent. We are concerned about every single dollar there is. But we also recognize that we have done a lot, and we have a good plan and a good path out for addressing the total amount of improper payments we have.

Mr. PLATTS. Dr. Combs, I would agree in the sense of the big picture governmentwide, now that we are in phase two, as you refer to it, and 85 percent. But if we get to specific programs—and I will stay aside from HHS before we get to the Secretary—Agriculture and HUD, if you looked at their specific programs, you could say, well, in 4 years we have made zero progress to their specific programs, meaning we are 4 years down the road without any reporting on possible improper payments at all.

So while, again, in the big picture we have made progress, but my question is: Why is, you know, the school programs, why at HUD the CDBG, you know, specifically them? The law says, you know, annually they will report on the susceptibility of improper payments. OMB moved forward in a very timely fashion, developed the regs and issued them in 2003. Yet 3 years later, those specific programs have not yet fulfilled the requirements of the law or OMB's regulations.

Ms. COMBS. Well, I agree with you that we have to continue to focus on those, and we are doing that. But I think the measurements of improper payments for these particular programs is due particularly in large part to the size and the complexity of these programs as well as some resource and timing issues. Because of the complexity, it is taking a lot longer in many of these programs to get where we need to be.

Mr. PLATTS. In several of the programs, prior to the Improper Payments Act being passed, OMB was already requiring them, through an administrative requirement, to report. And so it was not even something new. In essence, they were supposed to be doing this already through administrative action or executive action.

If we look at specifically Department of Ag. and school programs, what has been done for 4 years? You know, and I guess—is there a plan that has been laid out back in 2003 saying, all right, here is our programs, and here is how we are going to chip away at getting to a plan, and they actually have now for 3 years worked on that plan to where they are getting to where they say in 2007 they think they can finally give an estimate? Or was there problems along the way that they did not get started to 2004 or 2005, or they started and changed plans?

I know we are going to get into some of that detail. You do in your written statement with HHS. And maybe that is—maybe we want to jump over to HHS and give us some of that detail for your specific programs with the majority of them being at your Department.

Ms. COMBS. Let me, just before my friend Charlie says that.

Mr. JOHNSON. Sure.

Ms. COMBS. One of the things you are going to hear from Charlie is what you just asked for, Mr. Chairman, in terms of the plan and a very well laid out plan. Those are the kinds of things that are going on in these other departments, too. It is not like we are ignoring those by any stretch of the imagination. We have——

Mr. PLATTS. Were they going on—I mean, since 2003 and 3 years we are still working on the plan?

Ms. COMBS. I think you will understand better when my friend Charlie Johnson talks about the complexity of their program and their plan. The complexity of the situations that you have just talked is very similar, and what you also need to understand is that we really are firm believers in putting people on this plan, and we have a plan in place, and we hold people accountable for coming to us and explaining where they are at each step along the way on these plans.

Thank you.

Mr. PLATTS. And I appreciate the gentleman from Tennessee's indulgence as I know I am way over my initial round, so thank you.

Mr. JOHNSON. Your question is a very legitimate question. The same question I asked when I came in and why is it 4 years after the passage of this act and we are not completed in Health and Human Services. And I have studied that, and I have learned a lot about it.

First and foremost, a program that is solely within our direction, Medicare, we did start that process in 1996. And as I indicated in my testimony, we have a very sophisticated program, but that is a program solely within our control. We design it, we test it, we spend the money for testing improper errors.

Then we move from there to State programs where we are participating with States, and I spent the first part of my government career as chief of staff to Secretary Leavitt when he was Governor

of the State of Utah. So I know the State side of this, and I guess I have a little bit of appreciation.

But if you take Medicaid, I believe every State has in some sense been trying to reduce improper payments in Medicaid. I believe they have been trying in TANF and child care and adoptions and SCHIP. The difference is when you get down to trying to get a statistically valid error rate that you can present for the Federal Government as a role—as a total with 50 different States, that becomes a lot more complicated. And if we take Medicaid, we have had a lot of programs. We have had PAM and PERM, and we finally decided, look, this is very much like Medicare except it is 50 different Medicares instead of one Medicare. Let's take something that is proven and now start using that program. But that is an evolution. People go down paths with good intent, always with good intent, and with good results by the way.

We do not have a statistically valid number to give you, but I can tell you that these front-end efforts have reduced improper payments, but we cannot tell you by how much. So we have now a plan, and it is in process. We are in process now on the Medicaid.

When you get to TANF and Child Care, by design the Congress has said we want States to have a lot of rights in not only design of that, but in less interference from the Federal Government. There are certain things we can ask for and certain things that we cannot. But that is by design. And I understand that.

So we need to—we have been working for a way to come up with good improper payment rates without asking for legislation that forces this upon the States. We have tried to work very cooperatively with the States. Again, I think we have—in each of those programs, we now have a plan. But this has been evolutionary, and this has taken some time. In the meantime, I can tell you that some of these tools that we have used, we have had significant recoveries.

I was talking about, you know, the State programs using these data matchings. There are millions—Pennsylvania I think was $44 million in matches that they have saved in the TANF program.

Now, we cannot report that to you as something that is a reduction in an error rate that we had a baseline and we can tell you it has moved from this percent to this new percent. But I can tell you a lot of good things are going on.

But at the end, I have to say we are where we are at HHS, and I think we now have a place to go forward from that will get us to where we need to be. But it has been a long and almost tortuous process to get there, and I concede that.

Mr. PLATTS. And I certainly appreciate, Mr. Secretary, the challenge when it is State programs, and that, I guess two followups, and you kind of touched on the one. While there certainly needs to be a respect, having come out of the State House myself, and, you know, States having some autonomy of how they operate, but the ability of HHS to say, without even legislation, you certainly have the responsibility of ensuring against fraud and waste and mismanagement, which would seem to give you the authority to say to fulfill that statutory requirement of guarding against that, that this is, you know, a requirement to participate, because it seems like in the various programs, the problem has been getting the

States actually to participate in TANF specifically where in contacting States that, you know, not many took you up on it, you know, even when you reached out and maybe explained the benefits of it; whereas, in the D.C. pilot, in the new hires match, I mean, the numbers are pretty staggering.

Mr. JOHNSON. They are staggering.

Mr. PLATTS. Once they ran the program of cutting out the fraud, in essence, that was going on, and by your testimony, it is, I think, 31 States, D.C. and Puerto Rico have conducted a State match. What is the reason you are given for the other 19 States for saying, no, we do not want to save money?

Mr. JOHNSON. And, again, I think this is one that it builds. I think you will have another 19 States aboard. We are bringing States in. We are training them on these data match programs. We are showing them the benefits of Pennsylvania, and New York was, again, a very large number.

So I think it is—I call it "marketing." You know, we have to market these programs, and we are doing that in a much more aggressive fashion.

Mr. PLATTS. Because, I mean, if you look at just the D.C. pilot, a third of the individuals were submitted for the match, and over 80 percent of those, so basically 25 percent of all were actually employed based on that pilot. I mean, that is a huge percentage that were taking advantage of the system.

Mr. JOHNSON. And it is, and that is why States are finding success with this. They have new hires matches, and the more States that get in, then the more people we pick up, because if somebody vacations in Florida and lives in Pennsylvania, they may be getting benefits both places. And when you get both States in it, then it becomes more robust and much more useful. So, again, it is building but we are not there, and I can see that.

Mr. PLATTS. Well, and I appreciate being in the position for the past year, and your jumping into this and being aggressive is something I appreciate because as the numbers tell us, these State-partnered programs are critical to get in that other 15 percent. I mean, you look at the numbers, you know, Medicaid in particular is the big one. And when we have had Comptroller General Walker here and we talk about the fiscal challenges, you know, facing our country, Social Security is a problem. Medicare and Medicaid are terrifying. You know, those are the fiscal disasters that are coming without changes. And if we just extrapolate the percentage of the $1.2 trillion that we have looked at over to $38 billion, if you extract that to the remaining $300 million to go after—or $300 billion, we are talking maybe another $10 billion on a conservative end of improper payments, and maybe even more because of the type programs being State partnership that there may be a higher propensity. Those are huge sums.

Mr. JOHNSON. They are. And I think helping to mitigate will be some of these programs that we had put in place, because we are going to have huge increases. I mean, Part D is a huge new increase.

Mr. PLATTS. Absolutely.

Mr. JOHNSON. Managed care is growing. But some of the data mining and some of the things we are doing to check trans-analy-

sis, claims behaviors, and some of those things will help us detect it in advance rather than—help us to prevent it in advance rather than have to detect it later on.

Mr. PLATTS. Right.

Mr. JOHNSON. That is our goal. Let's stop it at the beginning point.

Mr. PLATTS. I have some followup questions, but I have overstayed my first round of questions already, and I would like to recognize the gentleman from Tennessee, Mr. Duncan.

Mr. DUNCAN. Well, thank you very much, Mr. Chairman. And you mentioned Mr. Walker, and he has appeared before this subcommittee and some other subcommittees that I am on, and I think he is—I really admire and respect his attempt to be a Paul Revere to try to alert the country to the tremendous financial problems that we are facing for unfunded pension liabilities and all sorts of things. And, in fact, I don't know how in the world we are going to pay all these military pensions, civil service pensions, Social Security, Medicare, Medicaid, prescription drug benefits with money that means anything within a few short years. But at least I do appreciate the progress that has been made since our last hearing, and I appreciate the progress that, Mr. Johnson, your Department has made. And like you, it sounds hopeful, this new data base information that you are talking about to try to overcome the duplication of benefits that people might be receiving.

But the GAO report, Dr. Combs, says, "However, the magnitude of the governmentwide improper payment problem remains unknown. This is because, in addition to not assessing all programs, some agencies had not yet prepared estimates of significant improper payments for all programs determined to be at risk."

Do you disagree with those statements? And assuming that you do not, how close do you think we are to getting a handle on this problem, particularly the magnitude of the problem?

Ms. COMBS. I think we certainly do understand that there are about 10 programs out there that—many of which, and one you just—or two you just head about here—represent about two-thirds of those 10 programs that we just do not know about yet. How close do I think we are? I think we are pretty close, because when you think about the kinds of error rates that we have found and the risk susceptibilities that we found, when we first went out and identified 60 percent of all of our outlays as being risk susceptible, that was a pretty high amount. And now, you know, of that 60 percent, we are into the 85-percent category of really knowing what those improper payments are.

And many of these programs over time have had some measures, and many of them have been pretty stable over time—some of the very, very large ones, anyway. So——

Mr. DUNCAN. Well, how do we know that—how do we know that these reports are accurate? I mean, you know, a lot of people feel that to really get a true picture in an accounting situation, you have to have some outside auditor, not somebody that is inside. And, of course, then we have established over the last few years all these Inspectors General in all these departments because we were not satisfied with the accuracy of the information we were getting from some of these departments themselves.

Have the Inspectors General in these various departments or agencies been involved in this process? Or how satisfied are you with the accuracy of the reports?

Ms. COMBS. I am satisfied that we continue to improve that accuracy, and in the departments and agencies that we do the best, we have Inspectors General that work hand in hand with our CFOs and with program managers to help them with their risk assessments. They help them look at the improper payments as well as other internal control mechanisms that they need to be employing. And I think since 2004, this agency reporting has improved significantly. Inspectors General look at these reports, as do we, to see if they pass the reliability test, so to speak. And I think that the effective practices that we continue to see are strengthened and expanded every year. And as I said, the programs and the departments that seem to do the best with these are the ones where we see a close collaboration and a close working relationship between the CFO and the Inspectors General.

Mr. DUNCAN. So we can feel that the OMB is sort of the outside agency, and GAO and the Inspectors General, that we really don't need to require some sort of outside audits of some of these programs. Yes, Mr. Johnson?

Mr. JOHNSON. I was just going to say, we have used an outside auditor for this very purpose. In Medicare, our Inspector General started this system in 1996, and then we have developed it to a point where it became ready to go prime time, they have signed off. Then we brought PricewaterhouseCoopers in to also evaluate, and they have also signed off. So we have used both Inspector General and the outside auditors that you are talking about for that particular program. That is why we know this one works, and that is why we want to replicate it in the Medicaid area.

Mr. DUNCAN. All right. Well, I noticed that of the seven major programs, you have—and you know, everybody in the Congress wants to do all we can for the veterans, but—and, of course, in this country—I do not guess there is any developed nation that even does 10 percent of what we do for our veterans. But I noticed—but that is an awfully big Department, but they are not in here. Why is that, Mr. Williams? Are they just doing a fantastic job where some of these others are not? Or what can you tell us about that?

Mr. WILLIAMS. Congressman Duncan, actually when you look at the $38 billion, there are three programs from the Department of Defense that are actually reported that they had programs with significant improper payments—that actually reported amounts. It was the health, the benefits, and military pay—military pay being a new program that reported this year.

Mr. DUNCAN. So they are included in the——

Mr. WILLIAMS. I think the schedule you are looking at are the ones that did not report that were required to report. But as far as those that actually did report, there were three programs that defense reported this year. There were two programs last year. Military pay is——

Mr. DUNCAN. Well, no, what I am looking at, it says improper payments reported in fiscal year 2005, and it says 95 percent were from Medicare, Earned Income Tax Credit, Old Age and Survivors' Disability Insurance, Unemployment Insurance, Supplemental Se-

curity Income, Public Housing, Rental Assistance, and Food Stamps. They could be—what you are talking about could be in the "Other" programs, which is 5 percent. Is that right?

Mr. WILLIAMS. That is correct. That is correct.

Mr. DUNCAN. OK.

Ms. COMBS. The first seven programs that were assessed, Mr. Duncan, that you are referring to, I think you are referring to VA benefits as opposed to DOD. Is that correct?

Mr. DUNCAN. Yes.

Ms. COMBS. It is included in this slice of the pie up here with "Other."

Mr. DUNCAN. Well, of course, I am also—I am interested in any of these departments as to, you know, what amounts they are reporting and whether they are reporting accurately and what they are reporting. Talk about Mr. Walker. I remember at another subcommittee of this committee, he told us one time that the Defense—he was the Inspector General of the Defense Department before he became head of the GAO, and he told us that the Defense Department has misspent $35 billion in Iraq and had lost another $9 billion that they just could not even account for. That is $44 billion.

Of course, I also remember when I heard Charlie Cook, the respected political analyst, in a talk one time, and he said he did not think it was humanly possible to comprehend any figure over $1 billion. And I am not sure that you even can comprehend $1 billion.

Now, Medicaid has not given us an estimate. Is that correct?

Mr. JOHNSON. That is correct.

Mr. DUNCAN. Well, Mr. Williams, have the States been cooperative in providing that information, or what is the problem?

Mr. WILLIAMS. We have another assignment in which we have looked at the various steps and actions that States have taken. States have actually been working to try to identify ways in which they can do risk assessments. It is kind of a mixed bag as far as the progress that they have made. In surveys that we did, they basically stated that in doing this particular process and trying to identify improper payments, that there were various areas in which the Federal Government could assist them.

Of course, one of the first things that we always heard was more money could help us out in this process to help people to work on identifying the improper payments. But they also requested assistance in the area of additional guidance, clarification on guidance that is provided from the Federal Government. And also in looking at this process, one thing that we, GAO as an organization, looked at was the possibility of more coordination between the Federal Government and the States, looking at best practices, opening communications, and working at the State and Federal agencies to make sure that those best practices are out there and, what is working in one area, that information is spread throughout the rest of the States so that every effort can be made to reduce this number to a manageable number.

Mr. DUNCAN. Well, you know, when you say that they say they do not have enough money, this is my 18th year in the Congress, and I cannot tell you how many times I have heard over the years, every time there is a problem, no matter what the problem is, they

tell us one of two things: either they do not have enough money, they are underfunded; or their computers are obsolete. [Laughter.]

I mean, it amazes me.

Now, I will tell you that I read in the Knoxville News Sentinel, though, a few days ago—they have a Thought of the Day, and they said, "To err is human. To err completely requires a computer." [Laughter.]

I put out a newsletter, like I said, with no pictures or anything, and I cover about 30 topics or so each time I do it, in just kind of a short way. But I will read one little part of this part that I wrote about our hearing last year. "One of the largest programs, Medicaid, at $175 billion, could not even be measured. Two days before our hearing, the New York Times completed a year-long investigation of the Medicaid program in New York and found billions in fraud and abuse. The chief investigator estimated at least 10 percent in criminal fraud and another 20 percent in improper payments. If this figure is nationwide, this would mean over $50 billion in the Medicaid program alone that was not included in the $45.1 billion mentioned above." The $45.1 billion was the figure that we had last year that there has been this progress on.

I mean, was the New York Times—do you think they were way off base? You know, I do not suppose we are really going to know this problem and how big it is until we find out a little bit more about this Medicaid. Do you all think that there is any possibility that the New York Times was right and that there could be a 20-percent improper payment figure on Medicaid nationwide?

Mr. JOHNSON. I am going to ask Mr. Hill to answer that. I can tell you that there are—because I do not want to speculate, but I can tell you that we have some programs, for example, where we match Medicare recipients against Medicaid recipients, the so-called Medi-Medi program. And we do find a lot of Medicaid errors in that situation, where people are drawing, you know, both. And so I think it is fertile ground, but States have an incentive to control that because they get to keep the money. They keep their share of the funding. And so they are not without great incentives and great rewards.

I would mention also that you had talked about more money. In your Deficit Reduction Act, you did give some funding now for Medicaid integrity. I think it is $5 million the first year and then $50 million each year thereafter for the next 4 or 5 years.

But, Tim, Mr. Hill, would you care to speculate on the New York situation?

Mr. HILL. I think I would be surprised, quite frankly, if the rate was 20 percent across the country. I think that in New York in particular, when you have an investigator who wants to make a point——

Mr. DUNCAN. Surely you would not question the New York Times, would you, Mr. Hill? [Laughter.]

Mr. HILL. I do not question the press. But I would say, speaking to Mr. Williams' point, and as Charlie highlighted, the DRA provided significant resources to do a lot of the things that the GAO has asked of us, sort of working with the States to export best practices across the States, match data to be sure that the States have everything that they need to continue the incentives that they

have to find the improper payments that are there, because as Secretary Johnson said, they have as much, probably more incentive than the Federal Government does to find and eliminate improper payments because their budgets are as strapped or perhaps even more strapped than the Federal Government's. And so they definitely have a vested interest in finding those improper payments.

Mr. DUNCAN. You know, I do not hear anything from Medicaid people on their bills, but I sure hear from a lot of senior citizens who are upset about things that they find on their hospital and medical bills that they think—services or things that they think they never received that popped up. I do not know how widespread that is, but well, all right, thank you very much. It does sound like we are making some progress. I hope, Mr. Chairman, you will keep moving on this and particularly that we need to followup with some of these agencies and departments that are not reporting and see what we can find out about that.

Mr. PLATTS. Well, Mr. Duncan, that is actually my next focus, the fact that eight of the departments say they have no programs susceptible to improper payments, and two in particular I would like to focus on, and probably, Dr. Combs and Mr. Williams, if you want to comment. According to the information, DHS is a Department with about $40 billion in outlays saying they have no improper payments—or no programs susceptible to improper payments. In the 2005 audit, the auditor said that—cited DHS as being in noncompliance with the Improper Payments Information Act and went on to say that it failed to institute a systematic method of reviewing its programs and identifying those it believed were susceptible to significant erroneous payments and for not performing test work to evaluate improper payments for all of its material programs.

So, you know, in the number we have, it is encouraging—and I want to get into even the drop that we see from 45 to roughly 38.5, but part of that number last year and again this year is these two programs, DHS. And we know that the auditor is saying they actually did not comply with the law, yet they get the report saying we do not have any programs, and then for DHS specifically, you know, we look at GAO's review of the Katrina relief, and just in one program, the Individuals and Households Program, where there were significant flaws found and about $5.5 billion was given, and just in the one aspect of that, the debit card recipients, that 5,000 of the 11,000, so almost half of the recipients gave false names, addresses, Social Security numbers.

So, I mean, we have clear evidence of improper payments, yet we have the Department saying we do not have any programs susceptible. So how does the Department get away with saying it? And what does OMB do in response to their saying they have no programs, yet the auditor says, well, you did not even follow the law, and GAO has found evidence that, yes, they have significant improper payments being made?

Ms. COMBS. Thank you for asking about that because, one, we are pleased a risk analysis was done at DHS, but we, too, have concerns that there needs to be a deeper look at DHS. We have talked with them. We know that there are a couple components they have reported on. We are pleased with that. We have an assessment of

the situation there, and through their PAR, of course, they report on this. But more importantly, and consistently throughout the year, they report through the President's management agenda. And we have asked them to look at closing the reporting gaps that have been identified by the Inspector General, and we have looked at their plans. We continue to work with them on their plans. And we are continuing to hold them accountable to expanding both their recovery audits as well as—well, particularly their recovery audits because a lot of what they do is contracting. But we have also asked them to do a deeper dive into their program areas and to give us their plan on that as well.

Mr. PLATTS. So exactly what message is conveyed from OMB to the DHS Secretary and then his subordinates that, you know, you have given us, OMB and the American people, a statement that you have no programs, but we know from your audit you actually did not do what you needed to do to make that assessment? In essence, I guess what I am asking, in this specific case—and it really relates to a broader—because at HHS, while I may not be pleased that we are 4 years down the road and we are talking maybe another 2 or 3 years before we get to where we want to be, but there seems to be an acknowledgment of the risk out there and a good-faith effort to get their hands around it. With DHS it seems they are just saying, hey, you know, we are not at risk, even though we know they did not comply with the law. So what consequences? Was there any recommendation that the CFO be reprimanded, that, you know, any Secretary, Assistant Secretary, anybody be held accountable for failing to comply with the law as the auditor is telling the Department did?

Ms. COMBS. Well, I think the corrective action plans that we require them to do are looked at by the highest levels in the agency, and certainly one of the things that we are asking them to put these tools in place, such as the accurate measurements and to really assess and dive deeper into their analysis.

We have the same concerns that you are expressing regarding the particular analysis that was done, and I do know that particularly in the one program—and I assume you are specifically referring to FEMA when you talk about that.

Mr. PLATTS. Right.

Ms. COMBS. We know that they have already put a measure on the street to go in and look at that, much like what Secretary Johnson talked about in terms of the assessment that they do with the internal controls. We know that those kinds of things are taking place. Are they taking place at the speed which we would hope and we would like? Not necessarily, and that is why we are asking them and holding them accountable for that.

Mr. PLATTS. And one of your challenges, Dr. Combs, is—you have been asked today and regularly to defend the actions of others that you do not have direct say over, and I would not want to be in your seat.

Ms. COMBS. Well, I can assure you, this is the first experience—normally, in my entire career, I have been in line management jobs, and it is a bit different.

Mr. PLATTS. And I guess my belief—and in this case, it is dealing with improper payments. At other times it is mismanagement of fi-

nancial management programs being not well planned and GAO has assisted us in what should be done up front that, unfortunately, many times has not been done, and so we spend millions and realize it will not work.

But does OMB—I mean, you are the one who is given this information, and then you are called on to respond about it in this case. It seems to me that it would be appropriate of OMB to go to the White House and say, listen, you know, the President's management agenda, this Department is not fulfilling the requirements of the law, 2002, or the regulations that OMB has passed pursuant to law. And the White House needs to get engaged and say to Secretary Chertoff and his subordinates, Follow the law or else.

I appreciate that there is—as we are doing oversight, you do, in essence, oversight. But it is kind of on an even playing field. Unless it comes from the White House back down, it is equal partners to some degree. Is there any of that kind of dialog to try to pursue consequences for a major Department spending $40 billion, not following the law, to be held accountable from the Secretary on down for what the auditor tells us is violation of Federal law?

Ms. COMBS. I can assure you that the President's management agenda is taken seriously by the Department, and when and if you ever or GAO or the internal Inspector General find things that really need to be followed up on, those are followed up on by senior-level people talking to senior-level people in those departments and agencies. The transparency that is created by the President's management agenda where people are given scores and it is publicly held out there for everybody to see, says to everyone we are expecting and demanding of you the kind of behaviors and the kinds of efficiencies that you are demanding as well.

Mr. PLATTS. In those scores—and, actually, one of the things I did not understand. In my understanding, in the current eliminating improper payments scorecard, DHS actually has moved up to a yellow. I guess I was not certain of how they get a yellow when the 2005 audit is telling us, well, they are actually not doing the test procedures, they are not complying with the law. So what is it that they did that allowed them to move up on the scorecard, despite not complying with the laws and OMB regs?

Ms. COMBS. There is a plan that they have presented to us, and those are assessed at least quarterly for every department, and some departments we look at on a monthly basis because we feel like we cannot let a quarter go by. We just need to address the accountability issues more frequently than that.

But the things that they are held accountable for are presenting a plan where they will show certain progress, and if they achieve certain progress on the accurate measurement of their high-risk programs, for example, or sound corrective action plans toward reduction targets would put them in yellow. But that is only a quarterly score, and if they do not meet or keep up the next quarter's or the next month's even plan relative to that, then, of course, we use those scores to move them back to red.

In this particular case, they had certain deliverables that they were presenting to us. We held them accountable for those, and we found that they had achieved those specific deliverables. And that is why they were rated yellow.

Mr. PLATTS. And that would be, in essence, since the bulk of the 205 year, which is what the auditor was looking at, those are encouraging words, perhaps, that they are moving forward with the plan.

Ms. COMBS. Yes.

Mr. PLATTS. Even if they were not in compliance in 2005, that they are working toward compliance.

Ms. COMBS. Yes.

Mr. PLATTS. Am I taking that——

Ms. COMBS. You are taking that exactly correctly. I think Secretary Johnson will know, as I, too, have been the receiver of those scores when I was CFO, a little bit of a help and push to say, OK, you are on the right path now, we want you to stay there, is a big help to many of the people who are responsible for doing this in the departments and agencies.

Mr. DUNCAN. Mr. Chairman, I have some people waiting for me. Can I get into one——

Mr. PLATTS. Yes, please do.

Mr. DUNCAN. I assume that just about everybody here knows this, but there might be somebody here who does not, that we are talking about not just payments to beneficiaries but improper payments to employees and also Government contractors. But what I am interested in, Mr. Williams, last year, we were given language by the GAO that said that the agencies found that more than 60 percent of Government outlays for fiscal year 2004 are $1.4 trillion, now $2.3 trillion, is at risk for a significant level of improper payments.

Now, do you know where that figure came from? Or has that figure gone down, or is that still basically—and by saying it is at significant risk I assume does not mean that—I mean, I know it does not mean that much was made—was improperly paid, but that is what is at risk.

Mr. WILLIAMS. That number is based on the agencies, the individual agencies, doing their own assessments. And it is just a compilation of pulling together that information from all of the major agencies within the Federal Government.

Mr. DUNCAN. And how do you think that was—maybe you do not know, but how do you think that was determined? In other words, in one respect that is a real high figure. On the other hand, I guess depending on how you define the words, you could say that 100 percent of the Federal budget was at risk for improper payments, could you not?

Mr. WILLIAMS. I think what you have here is a process in which, first of all, we have not—at GAO we have not done an assessment of drilling down and looking at that particular process. But it is obvious that when you are doing a risk assessment and you are looking at this process across as many agencies that we have in the Federal Government, that there is probably some variation in the methodology, the processes, and the procedures as to how to go about doing the assessments. But we have not drilled down.

What we have done, as far as this particular legislation is concerned, is in the initial stages we have focused on what we think is the big picture, and that is looking at the major components of the legislation, what agencies are required to do, and based on that

we are looking at are they actually reporting, are they doing the assessments, to get past that first phase and then what we would anticipate as we get down the road is to start taking a closer look at some of the specifics that are called for, such as what is the quality of the risk assessment.

For example, you had mentioned a while ago about the auditors actually attesting to whether these are reasonable numbers or not. I would say in that particular area that you probably have a process in which what we have done is looked at what the auditors have said, and we have had no reason to doubt their statements that they have made in their reports. And a couple examples that we were just talking about here was the Department of Homeland Security in which there was no number reported, and yet the auditor stated that the overall assessment could be improved, is one way of putting it.

Another one was the Department of Justice. If my memory serves me correctly, it basically fell into that same category of that group of eight that said that they had no programs that were susceptible to significant risk. Yet the auditors in their report identified a particular program in which there was no risk assessment.

I think it is too soon—and I will link in one of the other questions that you asked also as to what do we think that number should be. Should it be as high as $50 billion? I think it is too soon to tell exactly what that number should be. I think that there are a lot of things that still need to be done in order for us as a Federal Government to get our hands around this particular process. Those are just a few of the things I just mentioned right then. We have not looked at all of the programs. I do not know if I am comfortable as an auditor—or I cannot say as an auditor at this particular point in time that I am comfortable that the risk assessments that are going on across the various agencies is something that I am comfortable with. I think you can just look at the conversation that we had a few minutes ago about the Department of Homeland Security.

There are other factors that I think would need to be looked at when we start talking about this area because there has been discussion in the past about the issue of significant improper payments. There are various things that could go on as far as, you know, how you look at the word "significant." I can give you an example of where we currently have the criteria of $10 million and 2.5 percent. I think there are a couple of ways that you can look at that. If you have a program—if you have an organization that has 10 programs and in order to hit that 2.5 percent, you would have to also have $10 million. And each 1 of those 10 programs came in at 2.4 percent, and they came in at $9.9 million. When you put them all together as an agency, you are talking $100 million, yet none of them would have to report under the requirement that we have here.

So there are a lot of things that I think we have to still take a hard look at, continue to work toward the progress that we have seen over the last year before we can be in a position to say with what I would call good confidence that we have a handle as to what that number really is. I think there are just too many uncertainties right now and too much work still to be done.

Mr. DUNCAN. Let me just conclude, because I am already running late, but because of what I said at the start of this about the financial condition of the Federal Government, which we all know about, I do not see how any work that you could be doing would be more important than trying to get a handle on this problem and doing something about it. And I appreciate the work that you all are doing and the progress that has been made.

Obviously, though, the problem is much bigger than the $45 billion down to the $37 billion that we are talking about here today, as good as that is, I mean, because if you have potentially even more waste than that and fraud than that in just the Medicaid program, and then we have so many other departments or agencies or programs that are not reporting. But I sure hope that we keep on working on this and hopefully do even better in the future.

Thank you very much, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Duncan. Again, appreciate your participation. I want to come back where I was on the issue of those that report that they don't have anything at risk, like DHS. One of the reasons I ask specifically about what followup happens between OMB and the departments when they come back and say that is in a visit to a NASA center, and I asked the CFO about their improper payments, you know, with a lot of contracting and things, you know, what it was, and the response was, "We don't have any." And I said, "Well, how do you know that?" And the response is, "Well, we just don't have any." In other words, it didn't leave me very reassured that there was actually what the act requires, a review, a risk assessment actually done. That is what worries me when I see eight, one of them DHS, which has FEMA in and of itself, that says, "We don't have any," and especially when you look at the whole TSA aspect of contracts that we know, huge sums that were made inappropriately.

I want to make sure that, Dr. Combs, from what your testimony was, that those eight that are saying that, that there is a healthy dialog, interaction between OMB and those to really be looking at how they come to that conclusion and how they are going to substantiate that conclusion. And I am correct in that understanding, that dialog is occurring?

Ms. COMBS. You are correct that dialog is occurring and will continue to occur. NASA, you mentioned them specifically, they had reported under the recovery audit, and I'm not quite sure what the person meant that they didn't have any, but consistent with the recovery auditing requirement, the outlays that we notice from NASA are, of course, primarily in the administrative and contract funds, and those are being monitored very, very carefully and will continue to be.

Mr. PLATTS. And that actually is the followup on NASA specific, and, Mr. Williams, I am going to eventually get to you on DHS and NASA, but recovery audits is one of the other areas I wanted to touch on, and specifically with NASA, because my understanding that the amount subject to review for NASA was about $12 billion, and yet they only reviewed about $82 million worth of the contracts, and have they given you an explanation? Are you aware of an explanation of why they reviewed, as part of the recovery audit process, such a small fraction of what was eligible for review?

Ms. COMBS. I think the amount that they identified for recovery was $617.

Mr. PLATTS. Right, $617,000.

Ms. COMBS. And they recovered that entire amount.

Mr. PLATTS. Out of the $82 million they reviewed, but there was about $11.3 billion that they chose not to review.

Ms. COMBS. Correct.

Mr. PLATTS. Why, with the ability and authority to do it, is there any reason you are aware of that they have not engaged in that review, as the law provides for?

Ms. COMBS. I think one of the things that is on their plan, in fact, I am sure of it, for 2006, right now, is that they are reporting on their overall spending this year in 2006, and they're going to include even more contracting categories in their review this year, and that is the kind of dialog we are continuing to have with them on this particular issue. And we just need further expansion from them on this. I agree with you on that.

Mr. PLATTS. So on the 2006 part we would expect to see a much larger number actually reviewed than we did?

Ms. COMBS. Yes.

Mr. PLATTS. And that is the type of direction we want to see.

Ms. COMBS. That is right.

Mr. PLATTS. Is that we use the tools that have been given to all of us to pursue the worries out there, because of the $300 billion that was reviewed, I guess, about a half billion was found to be inappropriate and was collected. I think $557 million was identified as improper, of which $467 million was then——

Ms. COMBS. Was actually recovered.

Mr. PLATTS [continuing]. Recovered, which is great for the American taxpayer. Again, I do a lot of extrapolation of numbers, and I know that could be dangerous, but if it extrapolate that $300 billion reviewed and a half billion recovered, if I extrapolate that to NASA's amount they didn't review, it is maybe $20 million that is probably likely and appropriate on just a straight extrapolation that we are at risk of not getting if we don't do the review.

Ms. COMBS. We're certainly concerned about that, and that's the kind of thing that we look to GAO, to the IGs, to partners such as yourself, that when and if those kinds of programs are found, if there are any specific programs that people feel like we should dive into deeper and have more dialog with these departments and agencies than we're currently having. As you know, we've talked before with your staff. There are seven or eight programs that don't fall within the threshold of the law or with our 2½ percent in addition to that, that we monitor on a very careful and regular basis simply because we believe that there are specific situations out there that deserve and merit additional administrative oversight.

And we are committed to doing that, and certainly, thanks to this committee, we've had other opportunities to include that in our future guidance that's coming out, and I think your folks have been looking at that already with us, but it was in direct relationship to conversations such as this that we've had, that we've been able to come up with additional and better guidance.

Mr. PLATTS. I believe that has happened with NASA and with Gwen Sykes and her efforts of having all those Center CFOs and

Center Directors working more hand-in-hand with headquarters, to have a more complete picture and understanding of their financial challenges and better management across the board. I think that is occurring, and sounds like with the recovery audits at NASA, one more step in the right direction, you are going to expand what they are actually reviewing.

Ms. COMBS. And there again, too, that is an example also of how an administrative management change in structure within the organization made a big difference in how they are able to hold people accountable, and bring the transparency needed to make those things happen.

Mr. PLATTS. If we could give you the same authority over all the department agencies that you have to answer for here, as Gwen Sykes was able to finally get with the Center CFOs, that would help a lot for your ability to get them to do what you are after, right?

Ms. COMBS. Some people think my title, Controller—[laughter.]

Mr. PLATTS. With Director Bolten, who went over to the White House, you know, maybe OMB is going to have a stronger reach there.

Ms. COMBS. It helps to have friends everywhere.

Mr. PLATTS. Mr. Williams, I wanted to get your thoughts, comments on specifically DHS and the fact that the auditor did find them in noncompliance, yet they report no risk, and then also on NASA, but especially on DHS, the noncompliance issue. Then the other half of the recovery audits is that DHS, although they report that they reviewed all of their amounts, the amount they report as reviewable was a small fraction of what they actually are contracting, so it seems like we are—again, what we reviewed was good, but there is a whole bunch that we didn't review that probably should have been. If you can talk specifically on DHS on those two aspects, noncompliance with Improper Payments Information Act and the recovery audit aspect?

Mr. WILLIAMS. Yes. As I was mentioning earlier, when you look at an organization that first of all had 10 material weaknesses and two reportable conditions, seven noncompliance issues including the Improper Payments Information Act, one of the things that we have talked about in all of my testimonies going back to before the act actually became law, we always focused on what was the root cause of improper payments, and it would always get back to the lack of internal controls or a breakdown in internal controls. So you have an environment in which there are numerous internal control weaknesses that have been identified by the auditor, and one issue, as far as compliance, in which based on their work, they basically concluded that the agency did not comply with the requirements of the act.

Having said that, that could be several factors that the agency might have looked at and determined that it was in compliance. It could be, again, that we may get back to this issue of looking at the 2½ percent as far as how the programs were divided up, and you could have large numbers here in which you might need to do some of the things, as Dr. Combs mentioned earlier, in which there are some programs.

I have done an analysis of the programs that reported in 2005, and if it had not been for that additional requirement that OMB placed on the agencies, the numbered issue, instead of being about 38 billion, would have only been about 34 billion because if you take a look at one of my schedules in here, it basically lays out those agencies that even though they reported, they pointed out that they reported because OMB had mandated that they provide that information this year, and that if it had not been for that mandate, then they would not have been required to report.

So you could have some of that going on at the agency also. I'm not for sure, but that is a possibility of a cause, but as I said, there's several agencies here, and the total come to about 4.3 billion that would drop that number down to about 34 billion issues. DHS could have that situation, or it could be a situation in which the agency is just getting a handle on what needs to be done. I think the focus, as has been stated here earlier today, is pressure needs to be maintained on the agency to comply with the requirements of the act, and efforts need to be put out there so that everyone understands that this is important legislation, this is the American taxpayer dollars that we're talking about that's going out the door, and it is very important that we get a handle around this issues. And the sooner we get a handle around the issue, the better off we will be as far as that particular problem is concerned.

So those are some of the things that I would say in that area, that there needs to be some dialog between, I would say, the agency, OMB, and as well as the Congress, because it's going to take pressure from, I think, all of those organizations in order to make sure that we have that comfort. Because I have not see anything, as I said earlier, I have not seen anything in the auditor's report, because Homeland Security is one of my agencies that I look at under the consolidated financial audit work that we do each year, and I have not seen anything that would give me any reason to doubt the conclusions that the auditors reached as far as the compliance issue is concerned here with Homeland Security.

As far as the Recovery Act is concerned, I guess overall I concur with some of the statements that have been made today, that we are seeing progress here. I can recall last year when we talked about this particular component, and I think I made the statement that there had been about $60 million collected, and I think I was asked, "do you mean 60 million or 6 billion?" And I said, "No, it's only 60 million." So progress have been made, but again, there's a lot more that I think that can be done in this particular area.

There are a lot of techniques, procedures that are out there that we call best practices. One of the things that I always like to highlight at these hearings is that we at GAO have put together a publication called Strategies for Addressing Improper Payments. It's got a lot of techniques in there. We always suggest that the agencies take a look at this. I know that CFO PCIE subgroups that's working on improper payments have mentioned it in some of their guidance. We encourage people to continue to look at that and try to make sure that they're following those best practices and trying to address this issue as far as recovering the money if it were possible.

Mr. PLATTS. I agree, again, going from 60, and roughly 450 or so million, heading in the right direction. The higher we get that number, the better in the sense that we are recovering more, but ultimately we want it to be lower because we are not making the improper payments to begin with. So that sort of goes to the whole internal control issue. I do want to touch on that with Dr. Combs.

Before I do, Secretary, I have given you and Mr. Hill, a breather here while I was working with GAO and OMB.

Mr. HILL. We're good with that. [Laughter.]

Mr. PLATTS. I do want to touch one issue that the ranking member, he is going to markup, the gentleman from New York, Mr. Towns was hoping to get here, but they have a lot of votes in committee, so he has been detailed. But he did have one issue he wanted to be addressed specifically with you, with the claims processor or other contractors who are used by Medicare in the payment process. In what fashion are they specifically responsible for the accuracy of the payments that are passed through them, and should it be strengthened in their level of responsibility as a processor to verify the information?

Mr. HILL. We absolutely think it should be, you know, accountability should go right down to the folks who are processing the claims. I think it's fairs to say that the Medicare Modernization Act has provided us a real robust set of tools to make sure that accountability is flowing through down to the FIs and the carriers, fiscal intermediaries and carriers we call them, who process the claims.

Prior to the MMA, the contracts that we had with these entities were an anachronism of the enactment of the Medicare statute. They were very odd in the contracting world. We had very limited flexibility to actually hold those contractors accountable for how well they process claims or how well they did a lot of something. They were cost based, very difficult to get rid of the contractors.

The MMA gave us the authority to contract with these entities just as any other contract, under FAR authority, where we can hold them accountable in any number of ways to accomplish the work for the Medicare beneficiaries that they do. And one of the ways that we are specifically going to hold them accountable is to incorporate in their performance metrics on a go-forward basis how well they do at reducing error rates.

As Secretary Johnson said, beginning in 1996 we measured error rates at a national rate. Beginning in 2003 we were actually able to disaggregate that national rate to specific carriers and FIs. So now I can say for New York or for Pennsylvania or for Tennessee, what the carrier or the FI for that State, how well they do in processing those claims. It wasn't until, though, the MMA was passed and we had this new contracting authority that actually could say to a contractor, "Unless you get that rate down or do something to keep it stable, you know, we're going to take some action." Now we have the ability to either build in as part of a fee pool, use it as part of a competitive range determination on a go-forward basis to how well or who we are going to contract with, to say, "Look, if you're doing a good job, you're going to get a benefit for it. If you're not doing a good job, it's going to look negatively upon you as we continue to compete these contracts."

Mr. PLATTS. So you basically have built in, going forward, a financial incentive for them to be more dutiful in their reviewing of the claims.

Mr. HILL. Absolutely.

Mr. PLATTS. That is good to hear, and I am sure the ranking member will be glad to hear that. With extending that, that is in Medicare specifically. Again, with Medicaid, it is complicated, and you obviously don't have the same program. Is there something you are looking at, how to try to create that same incentive on the Medicaid side, and is the structure so different that it doesn't——

Mr. HILL. Their relationship for us is with the States. It's not with the—the States have those relationships with contractors, and I think, you know, in some States where they have fiscal agents, they do use those sorts of incentives to keep——

Mr. PLATTS. But it is really a State decision.

Mr. HILL. But it's a State decision, and, you know, our incentives or disincentives would apply to States to keep their rates down. I think that becomes complicated on a whole bunch of different levels.

Mr. PLATTS. Thank you.

The GAO has been working with the State programs as far as a set of recommendations, and, Mr. Williams, if you wanted to kind of walk through your recommendations that you have supplied to OMB, and how to assist the State-Federal partnership programs to reduce improper payments. If you want to kind of give a capsule summary of those recommendations.

And then Dr. Combs and Secretary Johnson, if there are specific, you know, your thoughts on the recommendations that have come forward and kind of where they stand, that would be great.

Mr. Williams, you want to start?

Mr. WILLIAMS. Yes, a quick synopsis. You basically asked us to take a look at what the States are doing in this particular area, given the fact that out of the $2 trillion budget, about $400 billion each year is going to the States to administer Federal programs. So we wanted to see what was happening on that side of the equation because there is some responsibility on the State parts also to make sure that the money is making it to the ultimate recipient.

We interviewed various people. One of the things that we found in looking at this is that there were basically only two programs nationwide in which there was a statutory requirement that improper payment information be reported. One was the food stamp program. The other was the Department of Labor, the unemployment insurance program.

We found that in the various States, the States were actually using some of the tools that we've talked about today, and doing risk assessment and other techniques in an effort to recover improper payments.

Along the lines of what we're recommending is that we found that OMB had put together some guidance, and we had a couple of recommendations to OMB to clarify a couple of components of the recommendations. For example, the clearly define what stated minutes their programs represented, and a couple other areas that we talked about.

In addition to that, we also had a recommendation that the Federal agencies work closely to communicate with the States and work with the States on how to go about doing the risk assessments and estimating improper payments.

And, finally, we had a recommendation that focused on point that I had made earlier, and that is, OMB, Federal agencies and the States need to work together in every way possible, and get together to make sure that the lines of communications are open so that best practices are shared among organizations. So these are some things that we recommended that we think will improve the lines of communications and help the States become a stronger, larger partner in this effort of addressing the improper payments problem.

Mr. PLATTS. And would an example of that be that best practices like the TANF pilot program and new hires match?

Mr. WILLIAMS. That's correct.

Mr. PLATTS. As we see that expand to 31 and eventually, hopefully, all 50, be the type thing you are looking for?

Mr. WILLIAMS. Exactly. When you've got best practices like that, you want to expand it in every way possible until you've hit the entire universe.

Mr. PLATTS. Dr. Combs.

Ms. COMBS. Yes. We have concurred with the GAO recommendations, each and every one of them, and thoroughly appreciated what information we were able to get from that. We also believe, yes, there was need for some clarity on some specific areas, and one of the best practices that we have not talked about here today was the State of Tennessee, in one of their highway project as well that was done. But again, as Mr. Williams just said, getting those best practices out there will encourage others to do the same.

We are very committed to that. In fact, I personally met with some finance folks when they were in town for a conference, who are representatives in the States, their respective States, to hear from them and just hear if there are some things that we're not doing that we could do to reach out to them and to form better alliances and better relationships, and we intend to do quite a bit of followup with that, and having more frequent communications between our offices and them to help share those best practices.

I think Secretary Johnson mentioned a marketing effort a while ago in his testimony, and that's a lot of what this sharing those best practices is all about. So we concur with the GAO recommendations.

Mr. PLATTS. Secretary?

Mr. JOHNSON. Two things come to mind. We have, for example, in TANF program, set up a Web site where States can enter their best practices and share, which would include these data matches. That's one thing that comes to mind.

The other thing is this so-called A–133 single audit, where we ask that there be a single audit at States, and trying to expand the use of that a little bit, where we take specific programs and ask that in any given year that the auditors concentrate on that program to try to give us a better error rate and improper payment rate, through that means. So we've been experimenting with that with some States and finding some success. Now again, not every-

one is going to do it and we're looking at ways to market that, if you will.

Mr. PLATTS. I had the pleasure of speaking last year, and I forget the name of the group. I will say the American Association of Financial Managers—Association of Government Accountants. I was close—nor really. But I was there briefly, came in, got a chance to address and then had to come right back to D.C. But is there outreach at those settings? I kind of look at that as a continuing ed. opportunity where these best practices are shared, to encourage—because I know the brief time I was there I met a number of officials from Illinois, a number of States that were there at that national conference. Is there a sharing of this best—is that an example of the marketing that is done?

Mr. JOHNSON. That would be a good example. We try a lot of areas to do that. NCSL, the Secretary has spoken there, every opportunity. But we can do a lot more. I mean we're just kind of just getting the vision of what you can do through those kind of organizations, so I really think there's a lot more to be done.

Mr. PLATTS. I would think the environment is perfect. With the Deficit Reduction Act, a lot of what we did on the Medicaid side was actually—it was the National Government Association's recommendations, bipartisan, although you would never believe it by the criticism level at those of us who supported it, but it was using the knowledge of the State officials to say, here is the flexibility we need to ensure the integrity of the program so we can truly help those who need help, as opposed to those who want help but don't necessarily need it. So that sharing of information I think is so important.

And having participated in NCSL, and ALEC myself in my State House days, I know that from a law-making perspective those are very helpful forums to learn what works already, rather than reinventing the wheel.

Mr. WILLIAMS. Mr. Chairman, I would like to add, given that my boss is the former president of AGAA, he——

Mr. PLATTS. Don't tell him I got the name from him. [Laughter.]

Mr. WILLIAMS. I will not. The Association has put on workshops over the last year that focus specifically on improper payments issue, how to go about—in the Northern Virginia chapter, I should say, there's been presentations there, workshops on how to go about doing sampling and other procedures as far as addressing the Improper Payments Act.

Mr. PLATTS. I am glad to hear it, because, again, all the various avenues when—hopefully the States won't need to be coerced but will see the numbers and the benefits of doing it.

As you move forward with the marketing and the outreach, certainly if there are specific legislative hurdles that we needed to address, like MMA address with Medicare that we should be looking at, we welcome that feedback in these programs as you move forward, especially with the various HHS programs as you are moving forward with the plans, if there is additional authority, we are glad to hear, certainly in that case, energy and commerce with Medicaid, and we want to give you the tools to do what we are asking you to do.

Ms. COMBS. Mr. Chairman, before you leave that subject.

Mr. PLATTS. Yes?

Ms. COMBS. I will say that the organization that you mentioned has been very effective in an outreach. They ask our office very frequently to serve on panels and to serve as keynote speakers, so it is an effective organization for getting our message out there. We have taken full advantage of that whenever we possibly can. People on my staff have served on panels. We've had people who have helped because their organization acts to work through specific programs with them, and that specifically was the group that was in town, and got some State people together. So those organizations are very, very helpful and effective, and I appreciate their partnership as well.

Mr. PLATTS. Glad to hear it.

I actually have one final question, Mr. Williams. I just wanted—if I made my notes right when we were talking about DOD with Mr. Duncan. Was I correct that you said of 38 programs at DOD, they said just three were susceptible?

Mr. WILLIAMS. Of all of the programs at DOD, there were three programs that reported. That was up one from last year to the best of my memory. In 2004 there was Military Health and there was Military Benefits. In 2005, Military Pay was added. But, again, this is another program that if you look at the information that is reported in the PAR report, DOD makes a point of pointing out that these are programs that we are reporting because OMB has mandated that we report these numbers because they are former A–11 programs. But we do not believe that these programs have met the 2½ percent criteria, but we are reporting it because we have been mandated to do it by OMB. And those are the three programs that I believe we saw in the 2005 report, with no pay being added.

Mr. PLATTS. Out of the entire department, right?

Mr. WILLIAMS. Yes, this is department wide, as far as improper payment reporting.

Mr. PLATTS. So in a department that is spending half a trillion dollars, they believe only three programs have susceptibility and they really don't believe that. They are only reporting it because——

Mr. WILLIAMS. That's correct, because it's being mandated, exactly.

Ms. COMBS. Let me just also add that they also are reporting on their contract payments as well, and you got to remember, most of what they do there is contract payment, so they're reported on—they reviewed something like 223——

Mr. PLATTS. Right, on their recovery audits. That is a good point. I stand——

Ms. COMBS. In all fairness.

Mr. PLATTS [continuing]. Partially corrected.

Ms. COMBS. We'll give some credit when we can.

Mr. PLATTS. So maybe in the 2005 year they were probably at about $450 billion, and to about half they actually did review through recovery audits, and—I mean their total budget about $450 billion, and they recovered $418 million.

Mr. WILLIAMS. That is correct.

Mr. PLATTS. So it is larger than——

Mr. WILLIAMS. It's 473 is the amount that was identified for recovery, and about 148½ was actually recovered in 2005.

Mr. PLATTS. OK.

Ms. COMBS. I think the other point to make on this, that the outlays, they're tracking and reporting on about 71 percent of their outlays.

Mr. PLATTS. Right. And so about 30 percent they are not reporting on currently, but they don't really believe that they have any program susceptible——

Mr. WILLIAMS. Significant.

Mr. PLATTS. Yes. Of significant improper payments.

Mr. WILLIAMS. Yes. But this is an organization in which we have financial management at the Department on our high-risk series, and this is another agency at GAO that I have for responsibility for from the financial management arena. And we have, over the years, reported on various material weaknesses. Again, I get back to what I've testified is the root cause for improper payments in various areas.

And I guess the final point that I would also like to add, while we do have these recovery audits, this is good to have in the overall scheme of things, but with the weaknesses in the agency's inability to have audited financial statements in their reportable conditions, I've always pointed out that in this particular exercise, you want to make sure that you have—and I think it's been said earlier today—you want to make sure that you have those control techniques that prevent the horse from getting out of the barn in the first place, so to speak, and you want to make sure that you have a lot of those, given some of the departments that we've reported on in the past.

Mr. PLATTS. A point well taken, and it goes to the Secretary's comment earlier that we want to get to where we are not worried about recovering, but just preventing. And that is an issue we talk about a lot, the internal control issue, and I know they will be reporting here in the next couple months, in June, I guess, with the requirements.

Ms. COMBS. On their internal controls.

Mr. PLATTS. Right, on their internal controls, which hopefully they will translate to even more effectiveness on improper payments.

Ms. COMBS. Oh, absolutely. They are going to track hand-in-hand.

Mr. PLATTS. Great. Mr. Williams, you have DOD, you have DHS. Are you able to sleep at night? [Laughter.]

You have to be worried about all those dollars, right?

Mr. WILLIAMS. That's correct.

Mr. PLATTS. I want to thank all four of our witnesses and your staffs for your assistance in preparing for the hearing, your written testimony, your testimony here today and your answers to the questions. I sincerely appreciate the importance of the partnership between OMB, the departments, GAO, Congress, all of us who are after the same thing, which is ensuring that we spend the taxpayer moneys wisely, efficiently and responsibly, and certainly that is what you and your staffs are dedicated to, and we appreciate those good faith efforts, and wish you success, especially at HHS. You

have some huge challenges and especially in the State administered programs. We want to see you succeed, and any way that we can be of assistance as a committee, please let us know. But again, thank you.

We will keep the hearing open for 10 days for any additional information that needs to be submitted. Otherwise, the hearing stands adjourned.

[Whereupon, at 3:58 p.m., the subcommittee was adjourned.]