

IMPLEMENTING THE IMPROPER PAYMENTS INFORMATION ACT: ARE WE MAKING PROGRESS?

HEARING

BEFORE THE
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
FINANCE, AND ACCOUNTABILITY

OF THE

COMMITTEE ON
GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED NINTH CONGRESS

FIRST SESSION

JULY 20, 2005

Serial No. 109-126

Printed for the use of the Committee on Government Reform



Available via the World Wide Web: <http://www.gpoaccess.gov/congress/index.html>
<http://www.house.gov/reform>

U.S. GOVERNMENT PRINTING OFFICE

26-655 PDF

WASHINGTON : 2006

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON GOVERNMENT REFORM

TOM DAVIS, Virginia, *Chairman*

CHRISTOPHER SHAYS, Connecticut	HENRY A. WAXMAN, California
DAN BURTON, Indiana	TOM LANTOS, California
ILEANA ROS-LEHTINEN, Florida	MAJOR R. OWENS, New York
JOHN M. McHUGH, New York	EDOLPHUS TOWNS, New York
JOHN L. MICA, Florida	PAUL E. KANJORSKI, Pennsylvania
GIL GUTKNECHT, Minnesota	CAROLYN B. MALONEY, New York
MARK E. SOUDER, Indiana	ELIJAH E. CUMMINGS, Maryland
STEVEN C. LATOURETTE, Ohio	DENNIS J. KUCINICH, Ohio
TODD RUSSELL PLATTS, Pennsylvania	DANNY K. DAVIS, Illinois
CHRIS CANNON, Utah	WM. LACY CLAY, Missouri
JOHN J. DUNCAN, Jr., Tennessee	DIANE E. WATSON, California
CANDICE S. MILLER, Michigan	STEPHEN F. LYNCH, Massachusetts
MICHAEL R. TURNER, Ohio	CHRIS VAN HOLLEN, Maryland
DARRELL E. ISSA, California	LINDA T. SANCHEZ, California
GINNY BROWN-WAITE, Florida	C.A. DUTCH RUPPERSBERGER, Maryland
JON C. PORTER, Nevada	BRIAN HIGGINS, New York
KENNY MARCHANT, Texas	ELEANOR HOLMES NORTON, District of Columbia
LYNN A. WESTMORELAND, Georgia	
PATRICK T. MCHENRY, North Carolina	BERNARD SANDERS, Vermont
CHARLES W. DENT, Pennsylvania	(Independent)
VIRGINIA FOXX, North Carolina	

MELISSA WOJCIAK, *Staff Director*
DAVID MARIN, *Deputy Staff Director*
ROB BORDEN, *Parliamentarian*
TERESA AUSTIN, *Chief Clerk*
PHIL BARNETT, *Minority Chief of Staff/Chief Counsel*

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE, AND ACCOUNTABILITY

TODD RUSSELL PLATTS, Pennsylvania, *Chairman*

VIRGINIA FOXX, North Carolina	EDOLPHUS TOWNS, New York
TOM DAVIS, Virginia	MAJOR R. OWENS, New York
GIL GUTKNECHT, Minnesota	PAUL E. KANJORSKI, Pennsylvania
MARK E. SOUDER, Indiana	CAROLYN B. MALONEY, New York
JOHN J. DUNCAN, Jr., Tennessee	

EX OFFICIO

HENRY A. WAXMAN, CALIFORNIA

MIKE HETTINGER, *Staff Director*
TABETHA MUELLER, *Professional Staff Member*
NATHANIEL BERRY, *Clerk*
ADAM BORDES, *Minority Professional Staff Member*

CONTENTS

	Page
Hearing held on July 20, 2005	1
Statement of:	
Combs, Linda, Controller, Office of Federal Financial Management, Office of Management and Budget; and McCoy Williams, Director, Financial Management and Assurance, Government Accountability Office	5
Combs, Linda	5
Williams, McCoy	11
Letters, statements, etc., submitted for the record by:	
Combs, Linda, Controller, Office of Federal Financial Management, Office of Management and Budget, prepared statement of	7
Platts, Hon. Todd Russell, a Representative in Congress from the State of Pennsylvania, prepared statement of	3
Williams, McCoy, Director, Financial Management and Assurance, Government Accountability Office, prepared statement of	12

IMPLEMENTING THE IMPROPER PAYMENTS INFORMATION ACT: ARE WE MAKING PROGRESS?

WEDNESDAY, JULY 20, 2005

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

The subcommittee met, pursuant to notice, at 2:15 p.m., in room 2247, Rayburn House Office Building, Hon. Todd Russell Platts (chairman of the subcommittee) presiding.

Present: Representatives Platts, Towns, and Duncan.

Staff present: Mike Hettinger, staff director; Dan Daly, counsel; Tabetha Mueller, professional staff member; Jessica Friedman, legislative assistant; Nathaniel Berry, clerk; Adam Bordes, minority professional staff member; and Cecelia Morton, minority staff.

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

I appreciate everyone's patience as we begin. We hopefully will get through today's hearing without interruption from the floor votes. We may have some votes in the Education Committee on which I serve with an ongoing mark up but hopefully not, and we will have one continuous interaction here.

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

Just 2 days ago, the New York Times reported that it conducted a year long investigation into fraud in the Medicaid Program for the State of New York. The results of the investigation were staggering. Billions of dollars were wasted because of fraud and abuse. Improper payments are not always fraudulent but can also be the result of simple mistakes. Whatever the cause, we have the responsibility to do much better in safeguarding taxpayer funds.

The most recent information provided this year by the Office of Management and Budget tells us that the U.S. Government makes at least \$45 billion in payment errors each year. The Bush administration and Congress have made the reduction of improper payments a top priority. In support of that goal, this subcommittee be-

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 chaired 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 the 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 to help reduce their error rates. More can be done and we will continue to conduct effective oversight on this important topic.

Today, we will hear from the Honorable Linda Combs, who was recently confirmed as the Controller in the Office of Federal Financial Management at the Office of Management and Budget. Ms. Combs, we are delighted to have you with us and look forward to working with you in your new position.

Ms. COMBS. Thank you.

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

COMMITTEE ON GOVERNMENT REFORM
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT, FINANCE AND ACCOUNTABILITY



OVERSIGHT HEARING:

*Implementing the Improper Payments Information Act:
Are We Making Progress?*

OPENING STATEMENT OF

CHAIRMAN TODD RUSSELL PLATTS

JULY 20, 2005

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.

Just two days ago, the *New York Times* reported that it had conducted a year-long investigation into fraud in the Medicaid Program for the State of New York. The results of the investigation were staggering – billions of dollars wasted because of fraud and abuse. Improper payments are not always fraudulent, they can be the results of simple mistakes. Whatever the cause, we have a responsibility to do a much better job in safeguarding taxpayer funds. The most recent information provided this year by the Office of Management and Budget tells us that the U.S. government makes at least \$45 billion in payment errors each year.

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.

The work of the past few years has brought us a long way to getting our arms around the extent of the 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 to help reduce their error rates. More can be done, and we will continue to conduct effective oversight on this important topic.

Today, we will hear from the Honorable Linda Combs, who was recently confirmed as the Controller in the Office of Federal Financial Management at the Office of Management and Budget. Dr. Combs, thank you for being here. We look forward to working closely with you on this and other financial management issues. 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 two and a half years. Thank you for being here again.

Mr. PLATTS. We also have with us McCoy Williams from the U.S. Government Accountability Office. Mr. Williams, you certainly have been very helpful to this subcommittee and have worked very closely with me, the ranking member and our staff. We are delighted to have you with us once again.

We will begin in just a moment with your testimonies, but first, I would like to yield to the ranking member from New York, Mr. Towns. Before I do so, I do have to point out that you turn 29 tomorrow, so happy early birthday. Usually I am very belated in birthday wishes, so it is nice to wish someone happy birthday early. Enjoy that 29th birthday, Mr. Towns.

Mr. TOWNS. Thank you very much. I really appreciate that.

Let me say, too, that I am involved in a mark up in Energy and Commerce so I might have some votes there and have to run out.

Let me also thank you for holding this hearing on improper payments and the detrimental impact on agency operations. I welcome our panelists, McCoy Williams and Dr. Combs who is testifying before us for the first time since her appointment to OMB. Welcome.

Ms. COMBS. Thank you.

Mr. TOWNS. In an attempt to enhance the accuracy and integrity of the payments made by agency programs, our committee played a leading role in development and passage of the Improper Payments Information Act of 2002. The testimony provided by OMB and GAO indicates that we still have work to do before considering these efforts a success.

For fiscal year 2004, the Federal Government reported approximately \$45.1 billion in improper payments throughout 41 individual programs, a \$10 billion increase over fiscal year 2003 estimates. According to OMB, seven programs alone, including Medicare, Food Stamps and the Earned Income Tax Credit Program accounted for 95 percent of all improper payments during this budget cycle.

Unfortunately, the short term outlook for stemming the flow of improper payments remains cloudy. As 12 of our largest Government programs including Medicaid and Title I Education Grants have yet to provide OMB with adequate estimates for such payments. Complicating matters, many agencies are in the process of implementing new financial management systems creating additional risks for programs with significant error rates.

This information is especially troubling for programs with escalating future liabilities such as entitlements and Homeland Security priorities. Therefore, Mr. Chairman, it is my hope that we may continue our joint efforts to root out the wastes and abuses within such programs so they can remain viable for future generations.

Mr. Chairman, this concludes my statement and on that note, I yield back the balance of my time.

Mr. PLATTS. Thank you, Mr. Towns.

We will now move to our opening statements. It is the practice of our committee to have our witnesses be sworn.

[Witnesses sworn.]

Mr. PLATTS. We set a rough framework of 5 minutes but we are not going to be that tight on that. We are glad to have you here and appreciate the written testimonies you have provided as well.

Dr. Combs if you would like to begin?

**STATEMENTS OF LINDA COMBS, CONTROLLER, OFFICE OF
FEDERAL FINANCIAL MANAGEMENT, OFFICE OF MANAGE-
MENT AND BUDGET; AND MCCOY WILLIAMS, DIRECTOR, FI-
NANCIAL MANAGEMENT AND ASSURANCE, GOVERNMENT
ACCOUNTABILITY OFFICE**

STATEMENT OF LINDA COMBS

Ms. COMBS. Thank you very much, Chairman Platts, Congress-
man Towns and members of the committee.

I am certainly pleased to be here today for the first time, as you mentioned, since being confirmed as the Controller of the Office of Management and Budget and the Executive Office of the President. It is quite an honor for a North Carolina farm girl to have that honor bestowed upon her. I look forward to working with the subcommittee very much.

Having had some meetings with you already about some of the major and significant financial management issues facing our Government today such as the Federal financial reporting that we have talked about, making government reporting more transparent to the consumer, and improving internal processes at various agencies as well as today's very important topic of eliminating improper payments.

Let me begin by saying this administration certainly is committed to making the elimination of improper payments one of our very highest priorities. I think you have seen some evidence already that shows that commitment. There is simply no more important undertaking than the efficient stewardship of taxpayer dollars. The Federal Government should be accurate and should be transparent in all of our financial reporting. Our citizens deserve to know that their money is being spent appropriately and for its intended purpose. Please be assured that as I take this position, we are already hard at work to ensure that good things are happening in that regard.

Fiscal year 2004 marked the first full year of the implementation of the Improper Payments Information Act and agencies reported their improper payment elimination efforts in the November 2004 PAR. Soon after that, OMB issued a report in January 2005 entitled, "Improving the Accuracy and Integrity of Federal Payments." This served to aggregate the results of these agency specific reports into a single, comprehensive document. This OMB report provides the clearest picture to date, we believe, on the extent of governmentwide improper payments, as well as the significant efforts underway to eliminate them.

Some of the report's key findings include some that have already been mentioned today. Federal agencies reported the collective total of \$45.1 billion in improper payments in fiscal year 2004 and that represented a 3.9 percent governmentwide improper payment rate. Approximately 92 percent of the Federal improper payments are overpayments, 7 programs alone account for 95 percent of the improper payments reported in fiscal year 2004 and if agencies meet the reduction targets, the overall improper payments total measured reported in fiscal year 2004 is expected to decline significantly when reported in 2005.

A new President's management agenda program initiative is also increasing and continuing to bring focus to eliminating improper payments. Beginning in the first quarter of 2005, OMB began tracking the progress of 15 major agencies with the programs and activities with the highest risk of improper payments on our quarterly score card. For instance, in order to get to green—or to the highest level that one can attain in the President's management agenda—on status on this initiative, agencies must have taken the following very important measures.

They must have a risk assessment in place that identifies all programs at significant risk of improper payments. They must have an OMB approved plan for measuring improper payments and meeting particular milestones. They must actually demonstrate that improper payments are being reduced, consistent with reduction targets.

The effort to eliminate improper payments also extends to the work of the CFO Council and the Improper Payments Committee. I have worked on the CFO Council, as many of you know, in this position and in a couple of other CFO positions in which I served in the past. I can tell you this level of scrutiny is a very important element in our ways to help reduce improper payments.

Across government, we assist agencies in efforts to identify and reduce these improper payments, to comply with the statutory requirements and the OMB Guidance, as well as facilitating the sharing of best practices among agencies. There certainly is a lot of work that remains to be done and a lot of discussion needs to be had relative to how we are assessing our programs to date. But I believe, Mr. Chairman, we are in a very, very strong position right now to continue the efforts already identified and eliminate improper payments throughout agency programs and activities.

With our goal of ensuring that each taxpayer dollar is spent wisely, effectively, efficiently, and for the purposes for which it was originally intended, we remain committed to this effort. We look forward to working with Congress and to seeing that this objective is accomplished.

Thank you, Mr. Chairman, for the opportunity to speak before you and the committee today. I am pleased to answer any questions you may have.

[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
July 20, 2005**

Thank you, Chairman Platts, Congressman Towns, and Members of the Committee.

I am pleased to be here today for the first time since being confirmed to the position of Controller at the Office of Management and Budget (OMB). I look forward to working with this Subcommittee on the many significant financial management matters facing our government – including the initiative to eliminate improper payments. I welcome a healthy discussion today on the specific challenges facing the government in this effort, as well as several of the success stories reported by agencies over the past year.

Let me begin by saying that this Administration continues to make the elimination of improper payments a high priority, as there is no more important undertaking than the efficient stewardship of taxpayer dollars. Citizens deserve to know that the government is spending their money appropriately and for the intended purpose, and we are working to ensure this is happening. Through the government-wide efforts to improve financial management under the President's Management Agenda (PMA), as well as the PMA Eliminating Improper Payments initiative in particular, we continue to strive to eliminate improper payments within Federal programs and activities.

When the PMA was first announced in 2001, the elimination of improper payments was a key part of the government-wide Improving Financial Performance initiative. This effort initially focused on those Federal programs making annual payments in excess of \$2 billion, as set out in Section 57 of OMB Circular A-11. The Administration's goal to eliminate improper payments was later endorsed by the Improper Payments Information Act (IPIA) enacted by Congress in 2002. In essence, the IPIA extended the scope of review from Section 57 programs to all major Federal agency programs and activities.

Following the enactment of the IPIA, the Administration provided guidance (OMB Memorandum M-03-13) in May of 2003 for agencies to comply with the Act. This OMB guidance outlined the steps for agencies to properly identify and eliminate

improper payments, which included compiling an inventory of all payments/outlays, conducting risk assessments and statistical analyses, and developing and implementing corrective action plans. The results of agency efforts to eliminate improper payments are then to be reported on an annual basis in the Performance and Accountability Report (PAR), which is issued on November 15.

Fiscal Year (FY) 2004 marked the first full year of IPIA implementation by the agencies. As such, pursuant to OMB guidance, agencies reported in their November 2004 PARs the results of their efforts to identify and eliminate improper payments. Soon after, OMB issued a report in January 2005 that served to aggregate these results of the agency-specific reports into a single comprehensive document, highlighting particular accomplishments and remaining challenges. This OMB report, *Improving the Accuracy and Integrity of Federal Payments*, provides the clearest picture to date on the extent of government-wide improper payments, as well as the significant efforts underway to eliminate them. Additionally, the report establishes the baseline from which short- and long-term program improvement efforts and priorities will be based as agencies strive to eliminate their improper payments in the years to come. Some of the key findings in the OMB report include the following:

- Federal agencies reported a collective total of \$45.1 billion in improper payments in FY 2004, which represents a 3.9% government-wide improper payment rate;
- Approximately 92% of Federal improper payments are overpayments;
- Seven programs alone account for 95% of the improper payments reported in FY 2004 – Medicare; Earned Income Tax Credit; Unemployment Insurance; Supplemental Security Income; Old-Age, Survivors, and Disability Insurance; Public Housing/Rental Assistance; and Food Stamps;
- Federal agencies determined that 60% of all Federal outlays in FY 2004 (\$1.4 trillion out of \$2.3 trillion) were risk susceptible for a significant level of improper payments;
- If agencies meet their reduction targets, the overall improper payments total for programs and activities measured and reported in FY 2004 is expected to decline significantly when reported in FY 2005.

Many agencies have already reported significant results in eliminating their improper payments. For instance, the Department of Housing and Urban Development (HUD) has eliminated a total of over \$1.5 billion in improper payments since 2000, largely due to improved program guidance, training, oversight activities, and data

matching. Also, the Social Security Administration projects approximately \$600 million in savings – in addition to the \$100 million reduction already realized – in its Supplemental Security Income (SSI) program by FY 2007 through improved data matches to verify income and assets. Additionally, the Department of Labor expects to eliminate over \$370 million in improper payments in its Unemployment Insurance (UI) program over the next 10 years through an increase in data matching processes. We look forward to continuing to work with these and other agencies in meeting their reduction targets and achieving savings.

A new PMA program initiative, *Eliminating Improper Payments*, is also serving to focus agency efforts on identifying and eliminating improper payments through the OMB Scorecard process. Beginning in the first quarter of FY 2005, OMB now tracks, on a quarterly basis, the progress of the 15 major agencies with the programs and activities with the highest risk of improper payments. Under this initiative, we are better ensuring that those taxpayer dollars most susceptible to risk for improper payments receive the greatest amount of focus and review. For example, in order to “get to yellow” on status, agencies must, in part, have a risk assessment in place that identifies all programs that are at significant risk of improper payments, as well as have an OMB-approved plan for measuring improper payments and meeting particular milestones. For an agency to “get to green,” it must, in part, actually demonstrate that improper payments are being reduced consistent with its reduction targets (in addition to reaching the yellow standards of success). As agencies continue to focus their efforts and take the necessary action toward identifying and eliminating improper payments, we expect more to achieve “green” in both progress and status in the coming quarters.

The effort to eliminate improper payments also extends to the work of the Chief Financial Officers (CFO) Council and its Improper Payments Committee. Comprised of representatives of the CFO Council, this Committee assists agencies in their efforts to identify and reduce improper payments in their programs and activities and comply with IPIA requirements and the OMB guidance. Since 2001, the Committee has served as a forum for sharing best practices and common challenges to provide agencies with proven solutions.

Some of the recent efforts of the Committee include the following: developing a standard format for reporting of IPIA implementation and information in the agency PARs; hosting a joint government-private sector Industry Day in 2004 that served as an initial step toward finding private sector solutions to overarching improper payment measurement challenges across government; and convening a follow-up Industry Day session in April 2005 for the agencies to present to vendors on potential areas for private sector technology solutions. I look forward to continuing to work with the Improper Payments Committee, as well as the rest of the CFO Council, to provide helpful guidance to the agencies in this effort.

While we continue to make progress, agencies do face serious challenges in their efforts to improve the accuracy and integrity of Federal programs. For instance, agencies must have the commitment of senior leadership in order to eliminate improper payments. Agency management must prioritize resources, properly set target reduction rates, and be held accountable for improvements and reductions if we are to see government-wide results. In addition, agencies must build healthy partnerships with the program stakeholders (such as States) and program participants (such as contractors). Without the buy-in and risk-sharing efforts of the other parties, ultimate success is extremely difficult – especially for the larger funded and state-administered programs. Another challenge facing certain agencies is the lack of data-sharing processes to verify information. For example, if agencies do not have access to accurate information in time to prevent a benefit check from going out, improper payments may occur. As Controller, I look forward to working with the agency CFO Offices to better ensure the appropriate level of focus and attention is given to these challenges.

With the tools of the IPIA and this Administration's management initiatives in effect, the Federal Government is in a strong position to continue its efforts to identify and eliminate improper payments throughout agency programs and activities. With the goal of ensuring that each taxpayer dollar is spent wisely, efficiently, and for the purpose for which it was originally intended, we will remain committed to eliminating Federal improper payments. We look forward to working with the Congress to see this objective is accomplished.

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

Mr. PLATTS. Thank you, Ms. Combs.
Mr. Williams.

STATEMENT OF MCCOY WILLIAMS

Mr. WILLIAMS. Thank you, Mr. Chairman.

I am pleased to be here today to discuss the governmentwide problem of improper payments in Federal programs and activities. Fiscal year 2004 marked the first year that Federal agencies governmentwide were required to report improper payment information under the Improper Payments Information Act of 2002. OMB has continued to provide strong emphasis on the act through the President's management agenda and Federal agencies response to fulfilling the requirements of the act has generally been positive.

My testimony today is based on our March 31, 2005 report that focused on the extent to which agencies have performed the required assessments to identify programs and activities that are susceptible to significant improper payments and the amount of improper payments estimated by the reporting agencies for fiscal year 2004.

We found that agencies made progress in identifying programs susceptible to the risk of improper payments. At the same time, Mr. Chairman, our findings suggests that even with the enhanced emphasis on improper payment reporting, certain agencies had not yet performed risk assessments of all their programs and/or estimated improper payments for their respective programs.

Specifically, 6 of the 29 agencies we reviewed reported they had not assessed all programs. We also found that 29 agency programs did not report improper payment estimates and 12 of these programs had prior improper payment reporting requirements under OMB Circular A-11. I will now focus on the amount of governmentwide improper payments reported for fiscal year 2004.

While 17 agencies reported improper payment estimates totaling more than \$45 billion for 41 programs, the magnitude of governmentwide improper payment problem is still unknown because as I mentioned earlier some agencies have not yet prepared estimates of significant improper payments for all of their programs. The \$45 billion represents almost a \$10 billion or a 27 percent increase in the amount of improper payments reported by agencies in fiscal year 2003. This increase was primarily attributable to changes in the method for estimating and reporting improper payments in the Medicare Program.

In closing, Mr. Chairman, we recognize that measuring improper payments and designing and implementing actions to reduce or eliminate them are not simple tasks and will not be easily solved. The level of importance each agency, the administration and the Congress place on the efforts to implement the act will determine its overall effectiveness in assuring that Federal funds are used efficiently and for their intended purposes.

This concludes my statement, Mr. Chairman. I would be pleased to respond to any questions you may have. Thank you.

[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

For Release on Delivery
Expected at 2:00 p.m. EDT
Wednesday, July 20, 2005

**FINANCIAL
MANAGEMENT**

**Challenges in Meeting
Governmentwide Improper
Payment Requirements**

Statement of McCoy Williams
Director, Financial Management and Assurance



July 2005

FINANCIAL MANAGEMENT

Challenges in Meeting Governmentwide Improper Payment Requirements



Highlights of GAO-05-907T, 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 longstanding, widespread, and significant problem in the federal government. The Congress enacted the Improper Payments Information Act (IPIA) of 2002 to address this issue. Fiscal year 2004 marked the first year that federal agencies governmentwide were required to report improper payment information under IPIA. One result of IPIA has been increased visibility over improper payments by requiring federal agencies to identify programs and activities susceptible to improper payments, estimate the amount of their improper payments, and report on the amount of and their actions to reduce their improper payments in their annual Performance and Accountability Reports (PAR).

Because of your continued interest in addressing the governmentwide improper payments issue, you asked GAO to report on the progress being made by agencies in complying with certain requirements of IPIA. My testimony today summarizes the results of that work reported to you in March 2005. Ultimately, the success of this legislation hinges on each agency's diligence and commitment to identifying, estimating, and determining the causes of, then taking corrective actions, and measuring progress in reducing improper payments.

www.gao.gov/cgi-bin/getrpt?GAO-05-907T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams, (202) 512-6906, williamsm1@gao.gov.

What GAO Found

The Office of Management and Budget (OMB) has continued to provide strong emphasis on IPIA through the President's Management Agenda, and federal agencies' response to fulfilling the requirements of IPIA has generally been positive. To date, the federal government has made progress in identifying programs susceptible to the risk of improper payments in addressing the new IPIA requirements. At the same time, our review of the fiscal year 2004 PARs for 29 of 35 federal agencies that the U.S. Treasury determined to be significant to the U.S. government's consolidated financial statements shows that even with the enhanced emphasis on improper payment reporting fueled by the new legislation, certain agencies reported that they have not yet performed risk assessments of all their programs and/or estimated improper payments for their respective programs.

As fully anticipated, the number of agencies reporting improper payment information is growing, but the magnitude of the problem remains unknown, because some agencies have not yet prepared estimates of improper payments for all of their programs. In the 29 agency PARs included in GAO's fiscal year 2004 review, 17 agencies reported over \$45 billion of improper payments in 41 programs. This represented almost a \$10 billion, or 27 percent, increase in the amount of improper payments reported by agencies in fiscal year 2003. This increase was primarily attributable to changes in the method for estimating and reporting improper payment amounts in one major program, Medicare. Future estimates are likely to trend higher because agencies' governmentwide estimate did not report for 12 programs with outlays of \$248.7 billion in fiscal year 2004. These 12 were previously required to annually report improper payments under OMB Circular No. A-11 during the past 3 years. This included some of the largest risk-susceptible federal programs, such as the Department of Health and Human Services' Medicaid Program, with outlays exceeding \$175 billion annually, and the Department of Education's Title I Program, with outlays of over \$10 billion annually.

Fiscal year	Agencies reporting improper payments*	Reported amounts of improper payments (in billions)
1999	8	\$20.7
2000	8	\$19.6
2001	8	\$20.9
2002	7	\$19.5
2003	13	\$35.7
2004	17	\$45.4

Source: GAO.

*Other agencies acknowledged making improper payments in their PARs but did not disclose dollar amounts.

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. Our work over the past several years has demonstrated that while improper payments are a significant and widespread 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 in their Performance and Accountability Reports (PAR).

Fiscal year 2004 marked the first year that federal agencies governmentwide were required to report improper payment information under the Improper Payments Information Act of 2002 (IPIA).¹ The IPIA has increased visibility over improper payments to a higher, more appropriate level of importance by requiring executive agency heads, based on guidance² from the Office of Management and Budget (OMB), to identify programs and activities susceptible to significant improper payments, estimate amounts improperly paid, and report on the amount of and their actions to reduce their improper payments.

Because of your continued interest in addressing the governmentwide improper payments issue, you asked GAO to report on (1) the extent to which agencies have performed the required assessments to identify programs and activities that are susceptible to significant improper payments and (2) the annual amount of improper payments estimated by the reporting agencies. We reported this information to you on March 31, 2005.³ In my testimony today, I will discuss the results of our March 2005 report on agencies' progress in meeting the requirements of IPIA.

To obtain information for our March 2005 report, we conducted a review of improper payment information reported by agencies in their fiscal year 2004 PARs. 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 assess the

¹Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

²OMB Memorandum M-03-13, "Improper Payments Information Act of 2002" (Public Law 107-300), May 21, 2003.

³GAO, *Financial Management: Challenges in Meeting Requirements of the Improper Payments Act*, GAO-05-417 (Washington, D.C.: Mar. 31, 2005).

effectiveness of the agencies' efforts or independently validate the data that they or OMB reported. We conducted our work from November 2004 through February 2005 in accordance with U.S. generally accepted government auditing standards.

Background

Before I discuss our review of the fiscal year 2004 PARs, I would like to summarize IPIA. The act, passed in November of 2002, requires agency heads to review all 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 submit those estimates to the Congress before March 31 of the following year. The act further requires that for programs for which estimated improper payments exceed \$10 million, agencies 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 federal agencies to use in implementing it. OMB issued guidance in May 2003 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 (MD&A) section of its PAR.

Working with the Chief Financial Officer Council's Improper Payments Committee, OMB issued a standardized format on July 22, 2004, for reporting IPIA information. To satisfy the reporting requirements of IPIA for fiscal year 2004, the framework instructed agencies to provide in the MD&A portion of the fiscal year 2004 PAR a brief summary of both what they have accomplished and what they plan to accomplish. All other required reporting details were to be included in an appendix to the PAR. The framework for the information reported in the appendix incorporates the requirements set forth in the law and further illustrates the reporting format required in OMB's implementation guidance.

The fiscal year 2004 PARs, the first set of reports representing the results of agency assessments of improper payments for all federal programs, was due November 15, 2004.⁴ In our December 2004 report on the U.S. government's consolidated financial statements for the fiscal years ended September 30, 2004 and 2003, which includes our associated opinion on internal control, we reported that while most agencies acknowledged the IPIA reporting requirements in their PARs, they did not always indicate whether they had completed agencywide assessments and they did not estimate improper payments for all of their susceptible programs.

I will now discuss the extent to which agencies performed the assessments of their programs and activities.

Progress Made but Challenges Remain in Addressing Key Requirements of the Act

We reviewed the fiscal year 2004 PARs for 29 of 35 federal agencies that the U.S. Treasury determined to be significant to the U.S. government's consolidated financial statements.⁵ Overall, we found that agencies made progress in identifying programs susceptible to the risk of improper payments. At the same time, our findings suggest that even with the enhanced emphasis on improper payment reporting, certain agencies have not yet performed risk assessments of all their programs and/or estimated improper payments for their respective programs. Furthermore, as shown in table 1, we found that certain agencies required by OMB in years before enactment of the act,⁶ to report selected improper payment information for the past 3 years had not performed much better than agencies that reported for the first time in fiscal year 2004.

⁴For fiscal year 2004, OMB accelerated the financial statements reporting date for agencies to Nov. 15, 2004.

⁵See *Treasury Financial Manual*, vol. 1, part 2, ch. 4700, for a list of the 35 agencies. Six of the 35 agencies had not issued PARs as of our fiscal year 2004 audit report on the U.S. government's consolidated financial statements; therefore, these agencies were not included in our review.

⁶Prior to the governmentwide IPIA reporting requirements beginning with fiscal year 2004, OMB's Circular No. A-11, Section 57 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, 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: Summary of Improper Payments Information Reported in Agency Fiscal Year 2004 PARs

Agency type	Agencies reported they had assessed all programs	Agencies reported they had not assessed all programs	Total number of agencies	Programs that estimated improper payments	Programs that did not estimate improper payments	Total number of programs
Agencies with prior reporting requirements under OMB Circular No. A-11	12	3	15	34	12	46
Agencies with no prior reporting requirements	11	3	14	7	17 ^a	24
Total	23	6	29	41	29	70

Source: GAO's analysis of agencies' fiscal year 2004 PARs.

^aFor 10 of 17 programs, agencies reported their programs were not susceptible to significant improper payments.

As the table shows, there were no significant differences in terms of not meeting key requirements of the act between the two agency reporting categories. Specifically, we found that six agencies that had not performed risk assessments for all programs were equally divided among the agencies with prior reporting requirements and agencies with no previous reporting requirements. Although a majority of the agencies had performed risk assessments to identify programs and activities susceptible to significant improper payments, the adequacy of the risk assessments was questionable. For example, three agency auditors cited agency noncompliance with IPFA in their annual reports included in the agency PARs. Two agency auditors reported that their agency's risk assessment did not consider all payment types or programs. The remaining auditor reported the agency did not institute a systematic method of reviewing all programs and identifying those it believed were susceptible to significant erroneous payments. In all three instances, agencies reported having assessed all programs and that the programs were not susceptible to significant improper payments.

We also found that of the 29 agency programs that did not report improper payment estimates, 12 programs had prior reporting requirements, compared to 17 programs with no prior reporting requirements. Because the 12 agency programs were required to estimate improper payments information for the past 3 years, we believe these programs had sufficient time to estimate their improper payments and should have been in a

position to fully comply with the requirements of the act. I will discuss these 12 programs further in the next section and highlight additional information in table 2.

Magnitude of Improper Payments is Still Unknown

The magnitude of the governmentwide improper payment problem is still unknown because, in addition to not assessing all programs, the agencies had not yet prepared estimates of significant improper payments for all of the programs. Specifically, of the 29 agency PARs included in our fiscal year 2004 review, only 17 agencies reported improper payment estimates totaling more than \$45 billion for 41 programs. Although this estimate increased about \$10 billion, or 27 percent, from the prior fiscal year, we determined that this increase was primarily attributable to changes in the method for estimating and reporting improper payment amounts in the Department of Health and Human Services' Medicare Program.

I would also like to point out that the governmentwide estimate did not include the 12 programs with prior improper payment reporting requirements, which totaled \$248.7 billion in outlays for fiscal year 2004. As shown in table 2, these included some of the largest federal programs determined to be susceptible to risk, such as the Department of Health and Human Services' Medicaid Program, with outlays exceeding \$175 billion annually, and the Department of Education's Title I Program, with outlays of over \$10 billion annually.

Table 2: Programs That Did Not Report Improper Payment Estimates as Previously Required Under OMB Circular No. A-11 and Target Dates for Expected Estimates

Program	Fiscal year 2004 outlays (in billions)	Target fiscal year for estimate				Did not report
		2005	2006	2007	2008	
Department of Agriculture–Agriculture Marketing and Assistance	\$ 8.8	X				
Department of Health and Human Services–Foster Care–Title IV-E	4.7	X				
Department of Health and Human Services–State Children’s Insurance Program	4.6	X				
Department of Health and Human Services–Child Care and Development Fund	4.8	X				
Small Business Administration–7(a) Business Loan Program	.7	X				
Department of Health and Human Services–Medicaid	175.3		X			
Department of Agriculture–School Programs	8.4			X		
Department of Agriculture–Women, Infants, and Children Program	4.8				X	
Department of Labor–Workforce Investment Act	3.1					X
Department of Education–Title I	10.3					X
Department of Health and Human Services–Temporary Assistance for Needy Families	17.7					X
Department of Housing and Urban Development–Community Development Block Grant	5.5					X
Total	\$248.7	5	1	1	1	4

Sources: OMB and cited agencies’ fiscal year 2004 PARs.

Of these 12 programs, 8 reported that they would be able to estimate and report on improper payments sometime within the next 4 years but could not do so for fiscal year 2004. The other 4 programs in four agencies did not estimate improper payment amounts, and the PARs were silent about whether they would report estimates in the future. As a result, improper payments for several large programs susceptible to risk will not be known for several years, even though these agencies were required to report this information with their fiscal year budget submissions since 2002.

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. Although OMB reported that the \$45 billion in improper payments establishes a baseline from which short- and long-term program improvement strategies and priorities will be based, it recognizes that fiscal year 2005 reductions in improper payments will be affected by outlay changes as well as the identification of new improper payments as additional programs are measured and methodologies are enhanced.

Conclusion

In closing, Mr. Chairman, I want to say that we recognize that measuring improper payments and designing and implementing actions to reduce or eliminate them are not simple tasks and will not be easily solved. The ultimate success of the governmentwide effort to reduce improper payments depends, in part, on each federal agency's continuing diligence and commitment to meeting the requirements of the act 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. Without such efforts, the likelihood of designing and implementing actions governmentwide to reduce or eliminate improper payments is doubtful. Fulfilling the requirements of IPFA will require sustained attention to implementation and oversight to monitor whether desired results are being achieved.

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

GAO Contacts and Staff Acknowledgments

For more information regarding this testimony, please contact McCoy Williams, Director, Financial Management and Assurance, at (202) 512-6906 or by e-mail at williamsml@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Individuals making key contributions to this testimony included Lisa Crye, Danielle Free, Carla Lewis, Donell Ries, and Alana Stanfield.

GAO's Mission	The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.
Obtaining Copies of GAO Reports and Testimony	The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."
Order by Mail or Phone	<p>The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:</p> <p>U.S. Government Accountability Office 441 G Street NW, Room LM Washington, D.C. 20548</p> <p>To order by Phone: Voice: (202) 512-6000 TDD: (202) 512-2537 Fax: (202) 512-6061</p>
To Report Fraud, Waste, and Abuse in Federal Programs	<p>Contact:</p> <p>Web site: www.gao.gov/fraudnet/fraudnet.htm E-mail: fraudnet@gao.gov Automated answering system: (800) 424-5454 or (202) 512-7470</p>
Congressional Relations	Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400 U.S. Government Accountability Office, 441 G Street NW, Room 7125 Washington, D.C. 20548
Public Affairs	Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, D.C. 20548

Mr. PLATTS. Thank you, Mr. Williams.

Maybe just in a broad sense as you have looked at this issue and Ms. Combs—I realize you are very new in your current position but certainly with your background you are very familiar with the importance of the issue and efforts to undertake reduction of improper payments and Mr. Williams, with many years working with my predecessor and this committee on the issue—is there anything that jumps out as the core problem that we need to focus on regarding improper payments, under payments or over payments? Anything that the departments and each of their programs say this is where we should start and then go from there?

Ms. COMBS. I think the one thing that stands out in my mind is the leadership element within each and every department in which I have served and the leadership of the very, very top level in the department. I know we don't often hear good news and don't often hear specific small examples, but small examples can talk and say an awful lot. I know even when I was at the Environmental Protection Agency, coming from a banking background I thought it was very, very important to take on some roles and responsibilities and have program managers understand that financial accountability is not just a financial person's responsibility, it is everybody's responsibility.

That was carried to our top level leadership and very early on I got commitment from the then Administrator of EPA that we were going to focus on improper payments and focus on some of these other internal control elements that you and I have talked about in private conversations. I share this one example because I think it says a lot about what is needed.

One of the days a particular matter came to my attention and it was how an improper payment had been avoided. It was not avoided by the CFO and it was not avoided by the then Administrator. It was avoided by a GS-7 clerk who was working in our accounting office. This GS-7 clerk happened to look at a document and say, hmm, I think I may have seen that before because we had very much sensitized all of our people to the fact that this was important to me and it was important to the Administrator. True enough, if she had made that payment, it would have been an improper payment and it wasn't \$25 or \$2,500, it was several million dollars.

I say that and yet to sensitize all of us that these responsibilities can be handled a lot of ways with just top level leadership. That is a very broad brush example for you, but I think leadership has an awful lot to do with this, and I think holding people accountable for corrective actions. Obviously there is a procedure in place in our internal controls or she would never have picked up on that. I think it speaks to a very achievable way that we can handle specific targets we have for improper payment reductions and it speaks to the fact that yes, internal control processes can be owned by every member of every department.

Mr. PLATTS. Ms. Combs, before we go to Mr. Williams, I share that sentiment on all the different financial management issues we have looked at in the last 2½ years, the leadership at the top and the interaction between the leadership. It sounds like in your previous CFO positions, the communication between you as CFO and

the Secretary or the Administrator was very strong and that direct access was there. We found having leadership and having the direct communication between the Secretary or the Administrator and the CFO helps to reemphasize across the department or agency the importance of financial management.

Ms. COMBS. And it does. Even taking the next simple step, so when I heard that, I picked up the phone and called the GS-7 clerk and said, thank you for avoiding this improper payment. By the next morning, the Administrator had also placed that same call. That word permeates throughout an organization and can do an awful lot. While we think our efforts are very important and they are, those little things mean an awful lot throughout an organization.

Mr. PLATTS. I share that sentiment exactly.

Mr. Williams.

Mr. WILLIAMS. I can only concur with everything that has been said so far. The bottom line when it comes to improper payments as we have noted at GAO, the common theme we have noticed is you get improper payments when there is a lack of internal controls. You get improper payments when there is a breakdown in internal controls. That is one primary cause.

One thing we focus on is looking at the internal control environment. It starts with the right tone at the top as stated earlier. I would reinforce the point also that when you're looking at the internal control environment, while you have to have the right tone at the top, you have to have the internal control structure in place throughout the organization from the top person in the organization to every individual. You need that in order to have a good control environment which would be what is needed to start the process of addressing the improper payment issue.

Mr. PLATTS. That kind of goes hand in hand, leadership and the processes?

Mr. WILLIAMS. That is correct.

Mr. PLATTS. In the findings of the 2004 numbers, the 60 percent deemed at risk, about 1/7th of that dollar amount was not determinable of how many improper payments and the value of those improper payments, I guess about \$250 million. Do you have what percentage of the programs have not fully complied, not in dollar amounts but 80 percent have complied with it fully as we look at the 2004 numbers?

Ms. COMBS. Can I just say that all 24 of the CFO Act agencies have complied. I think when we look at it, all the major agencies have been in compliance. You may have something you want to add, Mr. Williams?

Mr. WILLIAMS. One of the problems we have had in trying to identify how many agencies complied is that we have not been able to locate a central spot where we have been able to identify this is the universe of programs or activities. Until we are in a position of saying this is the universe, it is difficult for us at GAO to say x percentage has complied with the act. I think that is the first step or the first obstacle that we have to overcome, the basic identification of how many programs are out there, how many activities are we talking about.

There are several problems in trying to come up with that number and we have looked at it in the past. Activities change, there are regroupings, and so forth, so it makes it very difficult. It would be difficult for me to say an exact percentage.

Mr. PLATTS. A quick followup and then I want to get to Mr. Towns with questions.

Of the 24 CFO agencies, within those there are some that have not been able to provide an estimate for some of their programs, right?

Ms. COMBS. For the 2004 PAR.

Mr. PLATTS. Right.

Ms. COMBS. But subsequent to that, people have produced those requirements for this year. I think when we see the 2005 PARs this year, we will see a lot more comprehensive data much as Mr. Williams just indicated. I think what we know is 80 percent of the risk susceptible dollars have been identified. That is a very large chunk of what we know thus far. I think we will know a lot more as we get into 2005.

Mr. PLATTS. I have a couple followups on those numbers but I want to yield now to Mr. Towns for questions.

Mr. TOWNS. Thank you, Mr. Chairman.

Let me thank Ms. Combs and Mr. Williams for coming to testify again.

Ms. Combs, does it appear that with some of these agencies, the lack of additional resources led to the problem?

Ms. COMBS. I think a lot of the most frequent reasons that improper payments are made—if we go back to that, how could we avoid making them to begin with—are worthy of looking at. One of the things I think is very difficult is that many of the eligibility criteria are pretty complex. So without timely, accurate and verifiable data to inform of benefit or payment amounts or payment eligibility in some of these programs, I think we find some of those situations.

My reason for bringing that up is sometimes those require some additional data resources or technology resources within the departments and agencies to help them address those particular issues.

Mr. TOWNS. Mr. Williams, does this happen mostly with entitlement programs? I am trying to get a handle on this thing.

Mr. WILLIAMS. It is a combination of programs. One of the issues here is a lot of these improper payments occur in those programs in which the Federal Government is passing that money on to the State. We view it as accountability with the Federal Government until the money makes it all the way to the recipient. You are looking at a process in which there has to be some coordinated effort between Federal and State agencies to make sure those funds make it to the intended recipient and for the intended purpose. It is a combination of programs but there are quite a few that would fall into the grant program category.

Mr. TOWNS. What you are really saying is where you have a situation where there is a match, then that really sort of exacerbates the problem?

Mr. WILLIAMS. You have a situation that makes it difficult sometimes for the Federal agencies and it is not the Federal agency just

giving the money to the recipient, it has to go through the State agencies and sometimes other non-profit organizations. You have to make sure you work with each one of these entities. In some programs, the rules and regulations vary from State to State, so you have to work with each State to make sure you have proper controls and procedures in place to make sure the money is reaching the intended purpose and not getting these improper payments.

Mr. TOWNS. Ms. Combs, I feel comfortable asking this because you have functioned in so many different capacities which I think is really great for us, that we can draw on all this knowledge. Are there distinguishing characteristics between programs not at risk and those that are?

Ms. COMBS. I think the seven programs that comprise that 95 percent we talked about, if you look at what those programs are, Medicare, Earned Income Tax Credit, for example, the Supplemental Security Income, Food Stamps, Public Housing, Rental Assistance, I think we see some of those are the ones where we need to concentrate.

Mr. TOWNS. Did you mention Social Security?

Ms. COMBS. I may not have, Unemployment Insurance, Supplemental Security Income which is not. There are only four departments that are represented by those seven top programs.

Mr. TOWNS. I said Social Security because Social Security has probably the biggest outlay and doesn't fall into that category.

Ms. COMBS. They have been working very hard over the years. They are probably ahead of some of the other agencies in doing some of their assessments. I think one thing we have to keep in mind is various departments are at various stages of looking at improper payments. I would suggest that Social Security over the last year has already recaptured something like \$100 million in improper payments. They have been at this perhaps a bit longer. Maybe I am not correct with that but Mr. Williams has been at this longer than I have, but my assessment is they must have been at it a while longer.

Mr. WILLIAMS. When it comes to financial management, Social Security has been one of the model agencies as far as getting audit reports and addressing internal controls and receiving opinions on internal controls. They have been ahead of the curve in a lot of the financial management issues for which we have related legislation.

Mr. TOWNS. Mr. Williams, from a legislative perspective, has the passage of IPIA given OMB and the agency community enough directive requirements in order to stem the flow of improper payments? Are there additional budget requirements or legislation needed to assist in these goals?

Mr. WILLIAMS. I think the act itself has laid the groundwork needed from a congressional standpoint. We have only gone through 1 year of reporting this information. There are probably some things that as a result of going through 1 or 2 years, OMB might identify as we need some assistance. I can recall the Comptroller General testified in the past in this particular area, one additional area the Congress might want to look at is some of the Privacy Acts because a lot of the process we are talking about here of looking at improper payments, there are different programs in which recipients might be receiving improper payments in one pro-

gram and also might not be eligible for payment in a similar program. If you are not able to cross match some of this information, you wouldn't be able to identify some of the improper payments.

There are some things we have already identified such as that and there will probably be others that will come up as we go along to look at the process. That is part of the legislation, for OMB to work with the agencies to try to provide them with the tools they need to address these problems. That is one example of something that could come up but as we go through the process, I think there will be more opportunities to identify areas in which various tools could be provided by OMB and possibly by the Congress and some modification of the act if it turns out some changes are needed along the way to make this even more effective.

Mr. TOWNS. I see my time has expired.

Mr. PLATTS. Thank you, Mr. Towns.

Now I yield to the gentleman from Tennessee, Mr. Duncan.

Mr. DUNCAN. Thank you very much, Mr. Chairman. I am sorry that I had other meetings and wasn't able to get here and I am sorry I didn't get to hear the testimony although I have read some of the summary. I understand we are talking about \$45.1 billion worth of improper payments. Someplace I read that it is 92 percent overpayments and 8 percent underpayments.

A couple of months ago we had David Walker from the GAO here to testify before the National Security Subcommittee and they talked about how the Defense Department had made \$35 billion worth of improper payments just in Iraq and another \$9 billion for a total of \$44 billion that was just lost and unaccounted for.

We talk about billions up here so often it just becomes meaningless but I heard somebody say recently that \$1 billion would be somebody making \$100,000 a year for 10,000 years. I thought surely that is wrong, so I multiplied that and it is true. Another way you can put it is that 10,000 people making \$100,000 a year is just \$1 billion.

Now we are talking about \$45 billion, so I think this is a very, very important thing you are looking into and I commend you for your diligence and going after this type of thing. I will tell you, it is just shameful that the Federal Government is not doing better. When we see estimates like this, usually we are hearing about the tip of the iceberg. Usually these estimates are very conservative and there are many other things being missed.

Thank you for holding this hearing and we all need to work on this and do everything we can to try to cut this down because it is an unbelievably huge problem apparently in almost every department and agency throughout the whole Federal Government. It is beyond scandalous and it is hurting a lot of poor people around this country. There are a lot of poor, lower income, and working people who are paying these taxes in direct and indirect ways. You can't hurt the wealthy people, they will do all right, but there are a lot of families across the country that even with husband and wife both working, they are having trouble paying medical bills, utilities and now their gas bills and other things.

Thank you very much, Mr. Chairman.

Mr. TOWNS. Would the gentleman yield for a second?

Mr. DUNCAN. Yes, sir.

Mr. TOWNS. Mr. Chairman wished me a happy 29th birthday, I would like to take the opportunity to wish my friend a happy 28th birthday. [Laughter.]

Mr. DUNCAN. Mr. Towns and I have been friends for a long time. He and I and Jim Clyburn and now Mr. Salazar from Colorado all share the same birthdays. There were a lot of good men born on that day. [Laughter.]

Mr. PLATTS. I am honored to be in the presence of two of them. Thank you, Mr. Duncan.

I want to come back to those programs that were identified and we come up with 60 percent. And of that 60 percent at risk, we come up with the \$45.1 billion. If we extrapolate that percentage of 3.9 percent and apply it to what we have not yet identified, that would generate about another \$10 billion in improper payments, a straight percentage. My concern is that it is actually going to be significantly higher because one of those programs is Medicaid at \$175 billion.

I referenced in my opening statement the New York Times article on Medicaid fraud in New York. One of the former chief state investigators for Medicaid fraud said his belief is that outright fraud of Medicaid is 10 percent in New York and there is some questionable aspect to as much as 40 percent. Even if we take the 10 percent, just the Federal Government's amount for just that one program, we are talking about another \$17.5 billion and that is the Federal Government's share which is then matched.

We are talking again tens of billions of dollars more that we really don't have our arms around yet and are still working on. That comes with the hope we will get in 2005 a greater percentage if not all of these programs are in compliance.

My understanding from the Senate hearing on Medicaid specifically was when the report was done the projection of 2006 of being able to put out some legitimate numbers and based on the testimony in the Senate this past week, probably it is at least 2007. Is that your understanding?

Ms. COMBS. Over the last 3 weeks since I have been involved in this, you must know I certainly do have some other experience to base it on as well, I think the strategy that has been embarked upon thus far is a very good one, to attack the most risky programs, so to speak. I like to think of it in a Phase I and then a Phase II approach. I think particularly after we get better information with our 2005 PARs this year, we will be able to then sit down and say, here are the things that seem to be working well, here are those that probably aren't working so well.

Between now and then, the PARs are issued in November, so we will not utilize the time right now to find out as much as we can as well. One of the things we are doing as a CFO Council, the Improper Payments Subcommittee of the CFO Council, is taking a look at where we are. We are trying very, very hard to say what have we learned, what are the best practices we have embarked upon and where have we made the most progress and why, and where do we still need to work.

I think in all fairness we have to look at this in a structured, phased approach. You just talked about Medicaid and I don't think the total extent of the errors is known at this time, so it is probably

premature to reach a conclusion about the amount of improper payments at this time. I think we have to very much know, yes, this number could go up in spite of our best efforts to improve our improper payments, yes, we may find more and more. That would not be a bad thing.

We want to continue to root out all of the improper payments we can. We already know even during some preliminary discussions with other CFOs there are some programs that have been identified that were not placed in the other risk susceptible category in 2005, and I don't discourage that but encourage that. If it is a risk, let us face up to it and own up to it and put it in there. We also know there is some additional work we need to do.

Mr. PLATTS. In the breakout with the CFO Council, the subset, I assume there is a separate effort or focus in programs like Medicaid where it is State administered? I know that is one of the challenges of State administered Federal dollars. How do you get after their internal controls? Is that part of the dialog with the CFO Council, how to deal with that special circumstance?

Ms. COMBS. I think that is one of the beauties of having a CFO Council and particularly having a subcommittee, the like programs, people in one agency or department can see the similarities between their department and another and learn from those experiences. Certainly my staff and I consider it part of our duty and responsibility to assist Federal CFOs in their best practices to try to communicate through everybody what the best practices are.

Mr. PLATTS. I had the opportunity to speak to the Association of Government Accountants last week. One of the things the executive director emphasized in our private conversation at lunch was trying to have better dialog between the Federal, State and local. Going after improper payments is critical as Medicaid tells us. I am glad to hear it is being encouraged and promoted.

Mr. WILLIAMS, of the programs that did not report with estimated timeframes, several in 2005 and 2006, 2007 and 2008 and several that gave no estimate of when they would be able to report, do you have any update on those estimates that you want to share with us?

Mr. WILLIAMS. That is the latest information we have except the one on Medicaid. We had noted in the January summary report that OMB put together that the Medicaid Program was estimated to be able to report the information in 2005. We also noted in looking at the PAR report that information was estimated to be available in 2006. At the hearing you mentioned last week, it was pushed out to 2008.

I think this highlights the point that we were just discussing, that this is a complicated process and it is not something that every agency within the Federal Government is going to be up to speed at the beginning of this process. It is going to take a lot of effort, a lot of commitment, and a lot of focus, as I said earlier, in order to be able to address this issue because there are some complex programs. For some of those complex programs and all the steps they are required to go through, it is going to take some time.

We had talked a bit about whether the \$45 billion represented the total amount and if the number would go higher. As I stated earlier, the number is actually unknown at this particular point in

time. It wouldn't surprise me in the next year's report to see the numbers stay where they are and it wouldn't surprise me if they went down. It wouldn't surprise me if they went up because you have so many variables. You have components that didn't report, you don't know how much more that will increase the number next year compared to agencies improving the process of putting controls in place based on having this information for 2004.

There are just too many variables to tell just where that number is going. But you know for those programs that did not report, when they report the first year, that is going to push in the direction of increasing the number. You just don't know how much better agencies will be in year 2 with identifying improper payments that could push it up and how many procedures and processes have been put in place to actually reduce the process. It is just unknown in this particular point in time.

Mr. PLATTS. I did not hear all the testimony last week on the Senate side. I understand each program is different and the challenges will be different, especially where it is State administered.

Mr. WILLIAMS. That is correct.

Mr. PLATTS. In a program the size of Medicaid, so I understand 2005 or 2006 but they are saying 2008 now and it is hard for me as a lay person to understand, using a simple analogy, we do a scientific assessment and usually come up pretty close with what the final vote is going to be, yet it is going to take us another 3 to 4 years to even be able to say we think the improper payments are of this magnitude for this one program.

Is it because of not any the complexity but also the manpower to put out there and gather enough data to make a calculation? That doesn't make common sense or seem acceptable that it is going to take another 3 or 4 years to simply try to identify what is happening, let alone fix it.

Mr. WILLIAMS. I would concur that while it is complicated, that is a long ways out. Whether there are revisions to that, I am not sure. That was the date given at the hearing last week. I took note of it and looked at it from the standpoint of what was in the PAR.

Mr. PLATTS. The importance of us doing it as quickly as possible and we talk a lot about fairness or responsibility to the taxpayers, but it is also to those in need of the services of those programs. Across the country, Medicaid is really being stretched and Governors and the Federal Government are looking at how to stretch limited dollars which means some may not get the services they need because of inability to fund it all. If it is 10 percent that is fraud, that fraud is denying needy individuals the care they really need. So it is not just responsibility to the taxpayer, it is actually service to those in need of the benefit.

Let me address one more area and I will get back to Mr. Towns and Mr. Duncan.

In the 60 percent deemed at risk, one area that jumped out was DOD. According to the report, only two programs at DOD, Military Retiree Benefits, Military Health Benefits, were at risk and \$390 billion in programs at DOD are listed as not being at risk.

I would be interested in both of your opinions. Is that a likely and accurate estimate especially given some of the numbers Mr. Duncan shared of some of the challenges in Iraq and elsewhere?

Mr. WILLIAMS. I looked at the number and actually I went to the PAR report to get confirmation. I think in the 2004 PAR report, the conclusion was reached that those two programs were the only two that DOD would be required to report. Looking at those numbers in relationship to the outlays, it was being reported because OMB had put out reporting requirements that all of those programs under A-11 would still be required to report. For those two programs, it did not meet the 2½ percent criteria that was in the implementation guidance put out by OMB.

Mr. PLATTS. Some would have made the \$10 million?

Mr. WILLIAMS. They would have made the \$10 million but wouldn't have made the 2½ percent, that is correct. But if you look at some of the reports that GAO has issued that speak to some of the internal control weaknesses and some of the breakdowns in internal controls at DOD, and look at our high risk series and look at how many DOD activities including DOD financial management is included in our high risk series, when you go back to the point I made earlier, the lack of internal controls or breakdown in internal controls is one of the primary causes of improper payments. It would make one wonder if there aren't some other programs out there that I would find it hard to believe.

But it could be based on our definition of improper payments that some things might not be classified as an improper payment. It could be a waste or some other category that we look at. But as I said earlier, it is difficult to imagine with some of the reports we have issued that there were only two programs.

Mr. PLATTS. Ms. Combs.

Ms. COMBS. Let me address that a little bit differently. I think the complexity of programs certainly was already talked about and I think there are a couple of statutes that deal with that; the Improper Payments Act itself and the Recovery Audit Act.

It is my understanding thus far that the Department of Defense outlays are a lot related to contractor payments. We have heard that, we all kind of know that and some of that is being captured in the recovery audits.

I think one of the things we need to take into consideration and I know you are interested in us making sure we pull these things together and we are not double counting and having to do things more than once to get the same information, one of the things we have to take into consideration is whether or not some of those payments are being captured in the recovery audit as well. I would just add that, yes, I think there are probably a couple ways we can get at that.

Mr. PLATTS. Those numbers at DOD kind of further my concern. We raised this with your predecessor at OMB with the guidance that was put out for the Improper Payments Act that the required reported programs is the \$10 million and 2½ percent which is not in the law. We have tried to be very restrained on pursuing that because of commitments to cast a very broad net and not allow that band requirement of the 2½ percent to miss anything.

When I look at the DOD numbers and it is \$400 billion we are saying is not at risk, to me that probably tells me that and 2½ percent is not allowing that net to be nearly as broad as it needs to

be. I would encourage you to continue to look at whether that 2½ percent additional requirement is appropriate.

Ms. COMBS. I hear you and I understand your point on that. Certainly that is one of the things I think we as the CFO Council Subcommittee on Improper Payments look at. It is an appropriate time to assess what has happened thus far and it is an appropriate time to take a look at that. I certainly commit to you that I will take a look at that.

Mr. PLATTS. I appreciate that because if we have that in there and one way or the other we get to all programs that have significant improper payments, that is great but those numbers seem to argue that we are not, at least with DOD and perhaps elsewhere too.

I have some followup on the contract aspect as well but I want to yield to the ranking member.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Mr. Williams, in some programs such as Medicare and Medicaid, it is fair to say that maybe the guidance from the agency administering such programs is a significant cause of excessive reimbursement or improper payments, the lack of clarity. Do you think that has a role in this?

Mr. WILLIAMS. There are a couple things you need to look at when you talk about some of the causes. First of all, there is an inherent risk in a program. The example I always use is if you are looking at a program such as FEMA where you have to get out emergency supplies and get them out right then, ice is needed today, it won't do you any good a week from now, that you have inherent risk that you might be making some expenditures that would turn out to be improper down the road.

Then there is the other component which I think you just described and that is that in some programs, you probably have a design issue just basically the way the program is designed that will result in a higher number of improper payments. Going back to a previous question, would this be one of the things that should be coming out as you get a better handle on the dollar amount of improper payments and if you see a program has a very high number. That is something the Congress and the administration can look at; why do we have this high number? Have we designed this program in a way that will result in a huge number of improper payments or are there just some inherent risks in what we are doing here in this particular program?

Another concept that I talk about is when you put internal controls in place, you want to put those in place that are cost beneficial. You don't want to put controls in place that will cost you more than you would benefit.

In short, yes, there could be just some inherent risk as well as there could be some design risks in the way the programs are designed that could cause a high number of improper payments.

Mr. TOWNS. A number that really stands out after Congressman Duncan's comment about billions, I see here in 2003, I think the overall number was \$35 billion and then in 2004 it is \$45 billion. It seems to me we are moving in the wrong direction. Is it the fact we are looking harder now and by 2008 we hope to have things in

place. I am trying to figure out how we will do that if we are going in the wrong direction.

Mr. WILLIAMS. Actually the number went up by about \$10 billion and it is due primarily to one program, I believe that is the Medicare Program. It is because the agency came up with a better methodology in estimating that amount in 2004 than they had in 2003. I think while it is bad news, it is good news because you have better information out there that is needed for this process of trying to identify and come up with solutions for addressing the improper payments issue. While the number went up, I think the good news is that the agency has come up with a better way of estimating and you are getting better information than you had in 2003.

Mr. TOWNS. Does enforcement really play a major role? The reason I ask this question is that in my home State, enforcement is almost nil in terms of Medicare, Medicaid, all the programs. Does that play a part in this? I am trying to figure out if there is aggressive enforcement? Does it help?

Mr. WILLIAMS. In terms of the number?

Mr. TOWNS. Yes.

Mr. WILLIAMS. The one example I like to use is if you look at the Food Stamp Program. There are incentives and disincentives for reducing that number if that number continues to go up. For all the programs that might be a model that other programs can look at because if my understanding is correct, in that particular program, if you come in under the national average, there are some incentives or some benefits for doing that. They just changed the rules a couple years ago, I believe, which is an average of a couple of years to the best of my memory.

If you come in above that national average, there are some penalties or some accountability that comes into place if you are not doing as good a job as people are overall. I think that is one of the things you can do in these particular programs. Look at some of your best practices and look at what other programs are doing to address this issue. Anywhere there is a best practice, everybody should jump on the band wagon if possible.

Mr. TOWNS. Daniel Sisto said its members believe that Federal officials had used inappropriate tactics to crack down on fraud and they had fought the whistleblower law out of fear that the State would follow suit. He said the group's members faced a wrath of different requirements from Medicaid, Medicare and numerous private insurance companies and as a result, made billing mistakes that were wrongly criminalized. He said, what concerns me from our past experience is that there is overzealousness and the interpretation of any overpayment as fraud and abuse. What is your reaction to that?

Mr. WILLIAMS. Fraud is in the definition of an improper payment. My bottom line opinion on that is Congress has established a statute and that is the rule. In some cases, they are complicated but you have to have procedures in place, you have to have internal controls, be it preventive or be it detective, to hold people accountable for carrying out the programs that is basically the intent of the Congress.

I have never had a problem with the audit community carrying out its role of making sure that money appropriated by the Congress has been spent for the purpose Congress intended.

Mr. TOWNS. Thank you, Mr. Chairman.

Mr. PLATTS. Thank you, Mr. Towns.

A followup on the incentive when you talked about the Food Stamp Program, you were with us in Tennessee when we did the hearing. I know there is funding provided for the fraud units in the States. Is there any incentive in the form of a kind of finder's fee if States find \$1 million in fraud and save \$1 million by their efforts getting to keep 10 percent?

Mr. WILLIAMS. Yes.

Mr. PLATTS. Is that out there?

Mr. WILLIAMS. I am not sure. I don't know the details of that.

Mr. PLATTS. That carrot as opposed to the stick approach of getting the States to get on board. They are all looking for money. Help us find it and save it and we will share the proceeds.

Mr. WILLIAMS. I can't speak to it. I am not for sure but things like that you have to look at as far as what are best practices and what can we do to make sure the program is carried out the way Congress intended.

Mr. PLATTS. It relates to DOD but it is across the Government on contracts, of the \$900 billion deemed not at risk, there are six main areas, one of which was identified as contracts administration. Am I understanding correctly that we are saying Federal contracts in a broad sense are somewhat deemed as not at risk, paying contracts? Can we expand on what that is?

Mr. WILLIAMS. The Recovery Act basically stated any program that had contracts over \$500 million annually would be required to do recovery auditing. In my review of a listing of the various agencies, DOD was No. 1 if I remember correctly. I have the schedule here for DOD. In fiscal year 2004, DOD states that it identified for recovery \$6.3 million. It actually recovered \$6.3 million in 2004, that is 1 year under this particular program.

Mr. PLATTS. Through the recovery audit process?

Mr. WILLIAMS. Through the recovery audit process. This is a letter that GAO, the Comptroller General actually received from the Deputy Director for Management, Mr. Clay Johnson on the 2004 Recovery Act audit reports for the various agencies. I have a list of all of them. Looking at the various ones, DOD was \$6.3 million that was recovered.

Mr. PLATTS. Are you saying million or billion?

Mr. WILLIAMS. Million.

Mr. PLATTS. What dollar sum was reviewed? Do we know that?

Mr. WILLIAMS. I don't know.

Ms. COMBS. I think it was somewhere around \$15 billion that was actually reviewed.

Mr. PLATTS. That is \$15 billion that generates \$6.3 million?

Ms. COMBS. Correct.

Mr. PLATTS. Seems pretty low.

Ms. COMBS. Yes, I agree.

Mr. PLATTS. Again applying those across the board percentages?

Ms. COMBS. It would be wonderful if the rate were that good.

Mr. PLATTS. That comes back to our previous discussion that we set out the law and then the initial guidance but this is a work in progress and we look at how to tighten the law if necessary. We would welcome any recommendations if we think it is statutory or if it is more regulatory in the guidance given where we need to refine that 2½ percent being one example.

How common is the recovery audit process? Is that pretty standard in all departments with their contracts?

Ms. COMBS. I can answer from my personal experience as CFO at both the Department of Transportation and EPA, most recently. I know recovery audits even though many of the programs were not in the highest risk susceptibility, recovery audits were a common practice for us in those agencies and departments. I know that the improper payments rate within particularly EPA was less than 1 percent. That is part of all your internal controls processes. We talked earlier about consolidating and streamlining some of the ways you look at internal controls and look at risk within your various departments and agencies.

I think we have to apply several of those different ways of looking at risk within the various departments and agencies. This is what we are trying to do but I think there are some excellent practices out there. There are some we still need to work on.

Mr. WILLIAMS. Mr. Chairman, in looking at that in total as I stated earlier, I think the \$500 million was the criteria and the total amount for all of the major agencies I see in this report is about \$52.7 million across Government that was recovered.

One of the things I would like to point out is OMB has taken steps to increase accountability over this area and in the 2005 PAR reports this information will be required in a separate section so that will give it some visibility that is needed in that first step in trying to identify the problem, making sure that the information is out there so people know what is actually taking place.

Mr. PLATTS. The total sum for recovery was \$50 million?

Mr. WILLIAMS. That was \$52.7 million.

Mr. PLATTS. DOD was \$6.3?

Mr. WILLIAMS. DOD was \$6.3 million; Agriculture was \$2 million; DOD, \$6.3 million.

Mr. PLATTS. I am extrapolating from a percentage standpoint, but off the top of my head, I think DOD, \$400 billion budget and out of a little over \$2 trillion, so about one-fifth of our expenditures are DOD?

Mr. WILLIAMS. That is correct.

Mr. PLATTS. So you would have thought that DOD would have been in at least the \$10-\$15 million range, just extrapolating straight percentages or reverse if they got \$6.3 million, our total would have only been about \$30 billion instead of \$50 billion?

Mr. WILLIAMS. Right.

Mr. PLATTS. It seems like DOD again is off on the low end. I would like to believe that is accurate but given some of our past hearings and their challenges with internal controls, my worry is that it is not.

Mr. WILLIAMS. I would just add that the larger ones, VA had \$27.3 million; GSA had \$11.1 million and Energy and Defense were in the \$6 million range.

Mr. PLATTS. Ms. Combs, maybe a caveat to my request that we look at the 2½ percent additional requirement the guidance placed on the improper payments, what is required to be reported, and perhaps looking at it in a piecemeal approach meaning that for DOD, perhaps that 2½ percent should not be out there because of the way they operate, the size of their contracts, the amount of contracts and things.

I just come back to that \$397 billion not being required to be addressed, that perhaps it is not across the board and maybe the 2½ percent is a good approach for most departments and agencies but maybe we can encourage you perhaps to revisit just DOD in the short term.

One of the statements that I really appreciated in your testimony, something we have talked about often here, is the issue of consequences. In your testimony in talking about the importance of senior leadership, setting the example, you said agency management must prioritize resources, properly set target reduction rates and be held accountable for improving reductions if we are to see governmentwide results.

I was reading your testimony about midnight last night, my homework for the evening I took home with me.

Ms. COMBS. I am honored.

Mr. PLATTS. I am a night owl who doesn't get a lot of sleep but I underlined it and put a question next to it, how to be accountable in not just the agency management personnel but agencies in total. Is it a budgetary issue that you are going to lose money if you don't comply with the Improper Payments Act instead of the carrot that you get to keep what you find, you are going to lose if you don't comply. Could you expand on what you envision with that statement?

Ms. COMBS. I think there are a couple of ways we have to look at accountability. One is individual accountability, holding individual managers and senior people, even junior people, responsible for doing their job and doing it correctly.

Mr. PLATTS. That is a very welcome statement by this committee because it is one of the challenges, the belief that public servants, all of us need to be held accountable, the same as in the private sector where we clearly hold private employees accountable when it comes to businesses.

Ms. COMBS. Thus the reason I led off with the story I gave earlier. I think that brings it down to the lowest level accountability that you can have in an organization, the person who actually inputs the documents in order to not make an improper payment, but it goes all the way up through the individual accountability of every supervisor all the way through the manager, all the way through the CFO and on to in this case the Administrator.

I think management leadership is a very discreet and important part of that accountability process. It would be really good if we could work together from an administration perspective as well as with Congress to identify what some of those carrots and some of those sticks actually are because until people see the consequences not just individually but collectively of their successes as well as their failures, we won't stem the tide of some of this or do it as quickly as we could possibly do it. People may still continue to

work on improper payments, but I think we have to continue to look for ways to put the carrot and the stick into the process and to put real teeth into our efforts.

Mr. PLATTS. Both approaches I think are critical. The example you gave with the GS-7, the thank you call from you and the Administrator probably more than anything spurred that person to be even that much more diligent, the fact they got a reward, an acknowledgment of their good work.

I think I said this at a previous hearing. I have on my desk here in the Capitol from my late father when he was a mechanical engineer a clear pyramid that was a cost improvement award that I think he got in 1983 or an idea he submitted on trying to reduce cost for his company and taking responsibility. I don't think he got anything other than that, this little recognition but it was something he held on to. I am reminded of the approach he took in his private work in that company. So that carrot and stick approach I think is important.

We certainly will be glad to work with you and all the members of the CFO Council on how to do it in a way that is effective and responsible but fair as well.

Ms. COMBS. I think that is one reason I very much appreciate the personal meetings we have already had and look forward to others because when we talk about prioritizing resources which is basically what that 2½ percent is about, it has more to do with prioritizing the resources for the higher risk areas than anything else, but it also helps us to work together to set and meet those most appropriate and right now the largest target risk as well.

I think the healthy partnership that we can have both between the administration and Congress, between the States, between the contractors with our partners who don't like to be called our partners but I do it all the time anyway, GAO, I think if we can work together to come up with some of these incentives, that will go a long way in furthering our collective efforts in making improper payments almost disappear in the Federal Government.

We shouldn't be reticent to say we expect a zero percent improper payment. We should be brave enough to stand up and say that.

Mr. PLATTS. I think it is leading by example because in a wholly different area, we as a Government said to our schools, teachers, administrators, students, parents, 100 percent efficiency in the test under No Child Left Behind. Reality is, getting 100 percent, if that is what we set as our goal and we will keep working toward it as best we can, showing leadership and leading by example when it comes to how we spend the money, I think that needs to be our goal and we just keep chipping away at it.

I do want to turn specifically to the Department of Homeland Security. Certainly this reorganization is staggering, 22 different agencies into one department and inheriting from those 22 agencies lots of material weaknesses in financial accountability, they project they will be able to comply with the act again estimating 2005, not able to do it for 2004, but estimating 2005.

First, one that specific estimate, again Ms. Combs I recognize you are 3 weeks in the position and whether you can give an esti-

mate, but where do you think they are? Is that still realistic or is it going to be later?

Ms. COMBS. They actually completed their risk assessment in June 2005, so they are making substantial progress. We expect they will be reporting in the 2005 PAR.

Mr. PLATTS. Do they use the recovery audit process across the board? A specific example was FEMA and the report that came out with the IG that there was about \$31 million in improper payments made following the hurricanes in Florida last year. Some of the examples were \$125,000 for three funerals for people who died with no connection to the storm but we paid that amount related to their deaths. It is one thing after another. TVs supposedly damaged, but the total was about \$31 million. Would recovery audits apply to those type of payments effectively and in general, what is the Department of Homeland Security's approach as best you know it?

Ms. COMBS. I can't speak to the Department of Homeland Security's approach to that but I can tell you that CFOs responsibility when they realize something like that has happened, whether they learn it from Congress, through GAO, through an audit or their own internal auditors, where and whenever they learn of it, you can do a recovery audit on any particular element of any program you so desire.

I would suggest that if one has not been done and there are concerns, that there probably is an expectation within that department that a recovery audit take place on something like that anyway.

Mr. PLATTS. Mr. Williams, I don't know if you have any specific familiarity with DHS?

Mr. WILLIAMS. Yes. That is one of the agencies I have responsibility for in the financial management arena.

I would say first of all that if you go back to the statute, if they have contracts that exceed that half a billion dollars, then the law basically states they are supposed to do it. In my opinion, that is just the minimum. If you have scenarios in which you know you have some disbursements that have been made and you don't meet the \$500,000 threshold, I think most audit organizations would still go after that money anyway.

I have been involved, and I am quite sure you are aware because I testified before this subcommittee in the past on the whole issue of placing the Department of Homeland Security under the Chief Financial Officer's Act. There have been extensive discussions about requesting management to be in a position to assert on its internal controls in fiscal year 2005 and the agency being in a position by fiscal year 2006 to get an opinion on internal controls.

I have been involved, have attended some of the meetings in which the CFO, the Under Secretary for Management and other financial management leaders have begun the process of documenting and getting an understanding of the internal control environment so they can be in a position to issue an assertion on internal controls in fiscal year 2005. That project is well underway.

I have seen some of the documents. I attended the kickoff conference. As a matter of fact, the Comptroller General was one of the keynote speakers at the kickoff conference and he stressed the

importance of the act that placed them under the CFO Act as well as the importance of having good internal controls in place.

I know that is well underway. That should help the agency some. Having said that, there are still a lot of issues that, based on what I have seen and based on the opinions the auditors issued in the previous year and based on the fact the agency's auditor did not agree with DHS' assertion last year as far as its compliance with the act, it would automatically make you think there is still work to be done there.

There are some good efforts underway at Homeland Security to address the requirements of the legislation that came out of this subcommittee to make sure the controls were put in place in the internal control area.

Mr. PLATTS. We will be having a hearing next week specifically on DHS and getting into some of those issues, their 2004 audit, including their compliance with the legislation last year regrading CFO Act and the internal control audit and where they stand. We will get into more detail next week.

Ms. Combs, could you expand on the industry day you held and efforts with the private sector regarding improper payments?

Ms. COMBS. Actually, it was OMB.

Mr. WILLIAMS. Actually, we did attend and I could speak to it but I will let the host.

Ms. COMBS. He is probably actually better to speak to it.

Mr. PLATTS. Give a perspective as a participant, not the organizer.

Ms. COMBS. It was a great opportunity to do what we just talked about earlier, to share some of those best practices. There have actually been a couple of those. One was from the perspective of the industry coming in and showing what kinds of recovery audit tools are available and the second industry day was from the perspective of the agencies and departments saying here are some of the requirements we have, here are some things we know we need.

It was very well received and I think it is the kind of thing we need to do more often.

Mr. PLATTS. I was going to ask, I guess there is not a set timeframe but it is something you will look at periodically, kind of re-visiting?

Ms. COMBS. Certainly.

Mr. PLATTS. Mr. Williams, as a participant, do you want to add anything?

Mr. WILLIAMS. Here is a publication, Mr. Chairman, from the first one that was held called "Improper and Erroneous Payments, Sharing Workable Approaches." It has some good information in there. I think the most recent one is online if my memory serves me correct but it is basically an additional tool looking at best practices and gives people a chance to get together and exchange ideas and come up with ways in which this problem can be addressed. We strongly support it at GAO.

Mr. PLATTS. We have touched on all the main issues I wanted to get into and in closing, I would thank you both again for your efforts today in helping to enlighten the committee, members and staff. We certainly do look to continue and build on the relationship between OMB, GAO and this committee in that partnering effort

of getting after these dollars because Mr. Towns' question about the number going from \$35 billion to \$45 billion may sound unusual but that is a good sign to me because we know the money is out there.

When we said \$35 billion last year, we said it should be \$75 billion to \$80 billion. I really look at that \$45 billion number as we are finding more of what is wrong and we are capturing more of those improper payments.

When the 2005 number comes out and we are at \$60 billion, it is a scary sum that we have but it will say to me we are making great progress in getting our hands around this huge problem and are going to be much more effective in protecting taxpayer funds. While it is unfortunate that those dollars are going up, in the end it will be a good result long term that we are being more effective.

I do commend the administration because the statute is one part of this effort and the administration's efforts through executive action is a very important and equal part of this effort. This interaction as we go forward will allow us to be that much more responsible in protecting taxpayer funds and by doing so better ensure those who need the services of Federal Government programs get those services because money is not going to fraud, to those who shouldn't get but to those who really are deserving and needing the assistance.

We will keep the record open for 2 weeks for any additional information you would like to share. Again, thank you for your testimonies and we look forward to continuing to work with you.

This hearing stands adjourned.

[Whereupon, at 3:45 p.m., the subcommittee was adjourned.]

