



Testimony on Improper Payments

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and Financial Management
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Good morning, Mr. Chairman. Thank you for the opportunity to testify today before the House Subcommittee on Government Efficiency and Financial Management. My name is Charlie Gerow, and as chairman of the Pennsylvania Chapter of Citizens Against Government Waste, I am representing the more than one million members and supporters of CAGW nationwide, including more than 45,000 here in Pennsylvania.

CAGW was created 20 years ago after the late Peter Grace presented to President Ronald Reagan the 2,478 findings and recommendations of the Grace Commission (formally known as the President's Private Sector Survey on Cost Control). These 2,478 recommendations provided a blueprint for a more efficient, effective, less wasteful and smaller government.

Since 1984, the implementation of Grace Commission and CAGW recommendations has helped save taxpayers more than \$700 billion.

In your hearing last year on this issue, you noted that President Bush has made the reduction of improper payments a significant part of his management agenda and that your committee believes that taxpayers have a fundamental right to know how their tax dollars are being spent. We concur. CAGW appreciates that your committee has decided to hold periodic hearings on improper payments and that you will be asking agencies to provide you with their record on compliance. Asking us to testify before this committee on this issue is both an honor and a privilege.

CAGW works tirelessly to educate the American public about wasteful government spending and the long-term implications of a bloated bureaucracy. We have long supported efforts to reduce improper payments. This is a bipartisan, good government issue. The solutions are well-known, but it will take vigilance and oversight, including hearings such as this, to make federal agencies more accountable. Today is tax day, so as Americans rush to finish their taxes, the problem of wasted tax dollars is even more amplified.

In 2002, President Bush signed into law the Improper Payments Information Act of 2002. The purpose of the act is to require federal agencies to make annual estimations of improper payments. Agencies are must undertake a four-step process to meet the requirements of the act: (1) identify susceptible programs for significant improper payments; (2) identify the amounts of the improper payments in the susceptible programs; (3) implement a plan to reduce the improper payments; and (4) report the estimates.

An improper payment is any payment that should not have been made for a statutory, contractual, administrative, or other legal requirement. It can be an incorrect payment, an over- or under-payment, and can include, among other things, a payment to an ineligible recipient, a payment for an ineligible service, a duplicate payment or a payment for a service not received.

If an agency finds that it has made improper payments of more than \$10 million and 2.5 percent of program payments annually, it must report the improper payments and develop a plan to reduce or eliminate these errors. Unless there is a good reason, CAGW suggests that threshold be lowered. Surely there must a dollar amount at which the cost of government action to eliminate improper payments is worth the savings gained. It is troublesome that we have come to the point where we are willing to lightly brush off \$10 million. We would encourage the

committee to consider reevaluating this threshold because as Senator Dirksen once quipped, “A million here, a million there, pretty soon you are talking about real money.”

Another area of concern is an issue that was pointed out in a January press release by Senator Charles Grassley (R-Iowa.) The Office of Management and Budget (OMB) sent guidance to the Social Security Administration (SSA) regarding the reporting of improper payments that are considered to be “unavoidable.” OMB stated that if an improper payment is unavoidable, it doesn’t have to be reported as required under the Improper Payments Act. CAGW find this to be unacceptable. This is not OMB’s money. This is not Congress’s money. This is taxpayers’ money that is being spent incorrectly. We can find no valid reason for allowing this to occur unless SSA is bound by some legal commitment to provide payment whether it is proper or not. If there is some statutory reason for agencies to make a payment, even though they know the payment is not correct, CAGW encourages Congress and OMB to make the necessary corrections in the law.

Improper payments are a serious issue. According to OMB, improper payments may be as much as \$35 billion a year. That amounts to \$120 for every man, woman and child in our country. OMB has found that the top 10 areas of improper payments for FY 2002 were:

- Medicare, fee-for-service – \$13.3 billion
- Earned Income Tax Credit – \$9.2 billion
- Housing Subsidy Programs – \$3.3 billion
- Supplemental Security Income – \$2.6 billion
- Unemployment Insurance – \$2.2 billion
- Food Stamps – \$1.3 billion
- Old age and survivors insurance – \$875 million
- Disability Insurance – \$825 million
- Medicare cost reports – \$493 million
- Student Assistance Pell Grants – \$336 million

CAGW has long pointed out improper payments made through the Department of Health and Human Services (HHS) and in particular, the Medicare fee-for-service program. Medicare represents almost 50 percent of HHS’s outlays. HHS provides “the mother load” when it comes to improper payments and continues to deserve close scrutiny by the department’s Inspector General (IG), OMB and the General Accounting Office (GAO). Here are some examples of improper payments that represent gross theft of tax dollars:

- In California, Lovelace Health Systems was accused of falsifying its cost reports for the years 1988 – 1998. Among the allegations, Lovelace failed to report and reimburse overpayments and knowingly used inaccurate square footage measurements on certain cost reports in order to inflate reimbursement. As a result of an employee from Healthcare Financial Advisors, a financial health care consulting firm that reopened certain cost reports and filed a *qui tam* action, Lovelace has agreed to pay back \$24.5 million and implement certain integrity requirements to resolve its liability under the False Claims Act.
- A Virginia man created bogus medical invoices and pharmacy receipts that he submitted to an insurance company for reimbursement. He was sentenced to 15 months imprisonment and ordered to pay \$126,000 in restitution.

- A Missouri pharmacist was found to have diluted and tampered with drugs on several occasions, conspired to traffic stolen drugs, and caused the filing of false Medicare claims by not disclosing to physicians who received the tampered and diluted drugs. He was sentenced to 30 years in prison and ordered to pay \$10 million in restitution and a \$25,000 fine for tampering with and adulterating chemotherapy drugs he prepared for cancer patients.

Medicare is the largest, but not the only program responsible for improper payments. Student aid programs, the largest-dollar programs administered by the Department of Education (DoEd), is another area rife with improper payments. In a recent semi-annual report to Congress (#47), the DoED IG noted that while the Department has made some progress, reducing risk in the student aid programs continues to be a management challenge. The report also points out a lack of proper oversight by guaranty agencies. It also suggests that the Department needs to improve its management controls for evaluating accrediting agencies that participate in Title IV programs.

The IG also found increased incidents of identity theft and not receiving direct loan refunds in a timely manner – if at all – from institutions in where students have left school.

Some examples of DoEd improper payments include:

- An individual was arrested at Mesa Community College in Arizona after he tried to claim a student loan check under an assumed name. The investigation showed that the person used identities of inmates serving lengthy prison terms to obtain more than \$300,000 in student aid.
- A trade school owner, which had been barred by the Department for prior improper activities, subsequently purchased a beauty school in Puerto Rico, concealed his ownership of the school and embezzled \$600,000 in Pell Grants. As a result, he received a second prison term and was ordered to pay \$600,000 in restitution.
- A financial aid director of a photography school in Boston used a fictitious name to submit and certify several Federal Family Education Loan Program applications. He received more than \$14,000 in loans as a result. After an investigation, he pleaded guilty.
- In 2002, the GAO Office of Special Investigations created a fictitious foreign school that the Department of Education subsequently certified as eligible to participate in the student loan program. The investigators successfully obtained approval for student loans totaling \$55,000 of behalf of three fictitious students.

DoEd's IG stated that more effective monitoring is needed to make sure that taxpayer funds are used effectively and efficiently. In addition to more effective monitoring, the IG also recommended an income match with data submitted to the IRS. The IG stated that an income match would help reduce improper payments by ensuring that the information on the applicant's student aid application matches the income on reported tax returns. We agree.

My testimony today points out just a few examples of improper payments. CAGW's membership appreciates the hard work that is undertaken by Inspectors General in the various departments to root out this expensive problem and the auditing work conducted by the GAO

and OMB to make sure government agencies are doing what needs to be done to make sure taxpayer dollars are well spent.

We also applaud your committee's leadership on this issue. We encourage you to do whatever is necessary to reduce improper payments, ensure all agencies provide a true number of improper payments to Congress, and to correct any issues that permit "unavoidable" improper payments. With the approaching appropriations battle, Congress needs to keep in mind that there are still billions of dollars in improper payments and that it needs to continue to apply pressure to keep spending in line and to fight waste, fraud and abuse of our tax dollars.

Mr. Chairman, it is up to Congress to ensure that the Improper Payments Information Act is effectively implemented by federal agencies. I can assure you that CAGW will do whatever it can to make sure taxpayer dollars are protected. We offer our help to you and this committee in undertaking this important task.

Thank you very much for this opportunity to testify. This concludes my testimony. I will be happy to answer any questions at this time.