

**Statement of Paul J. Gessing,
Director of Government Affairs, National Taxpayers Union**

**before the
United States House of Representatives Committee on Government Reform,
Subcommittee on Government Efficiency and Financial Management**

**on
Improper Payments
April 15, 2004**

Chairman Platts, Ranking Member Towns, and distinguished Members of the Subcommittee, thank you for holding these important hearings today. My name is Paul Gessing. I am Director of Government Affairs with the National Taxpayers Union (NTU), America's oldest and largest grassroots taxpayer lobbying organization with 350,000 members in all 50 states a nationwide. You can learn more about NTU – and our educational affiliate, the National Taxpayers Union Foundation (NTUF) – on our website: www.ntu.org.

I come here today to offer testimony regarding the problem of improper payments; an improper payment being an over- or under-payment, a payment to an ineligible recipient, a payment for an ineligible service, a duplicate payment, or a payment for a service not received. As you know, today is April 15, the federal tax filing deadline, also known as “tax day.” Today in Washington, DC, and around the country, NTU and thousands of fiscal conservatives will be holding events to focus attention on our high tax burden, rising government spending, and the outrageous size of the budget deficit. For that reason, this hearing to shed light on the problem of “improper payments” is timely. With the budget in increasingly bad shape and recently passed tax cuts in jeopardy, renewed dedication to dramatically reducing the problem of improper payments is sure to become an important issue in the months ahead.

It is certainly the opinion of NTU and its members – all of whom pay federal taxes – that the government takes far too much of their money regardless of how it is used. Yet, the recent estimate by the federal government that Washington pays out at least \$35 billion each year “improperly,” is a bitter pill to swallow. Of course, this figure is probably only the tip of the iceberg since no one knows just how big the problem is. In fact, the \$35 billion figure doesn't even include Medicaid, the Department of Defense, and several other agencies. Defense Secretary Donald Rumsfeld, for example, estimates that 5 percent of his budget is wasted. Thus, the Pentagon is probably making \$20 billion in improper payments above-and-beyond the oft-cited \$35 billion figure.

Over the years, various agencies have estimated the amount of improper payments, but most acknowledge that the problem is big and getting bigger. In 2002, Congress passed the “Improper Payments Information Act,” Public Law 107-300. The act requires executive branch departments and agencies to review all programs and activities they administer, and identify any that may be susceptible to significant improper payments. Agencies are also

obligated to estimate the actual amount of improper payments for those programs. With respect to any program or activity of an agency with improper payments exceeding \$10 million annually, the agency must report to Congress on the causes of the improper payments, the status of the actions taken to prevent them, whether the agency has the appropriate information systems in place to minimize the improper payments, and the steps being taken to hold agency managers accountable for reducing improper payments.

NTU is aware that the law is not being fully implemented. Agencies are delinquent in reporting to Congress on the estimates, on identifying the causes, and in providing the status of the actions taken to prevent improper payments. For the sake of taxpayers as well as simple respect for the law, NTU calls upon the Administration to renew the effort to identify all erroneous payments and put systems in place to eliminate them.

NTU understands that a vast majority of erroneous payments are wasted dollars, unrecoverable to taxpayers, but this only makes prevention of mismanagement all the more vital. What's more, this is not a matter involving only a few dollars. Having analyzed just under one trillion dollars in federal spending – out of a federal budget of more than \$2.4 trillion – the \$35 billion in erroneous payments is a significant sum of money even for the federal government!

Even worse than the government having already lost hundreds of billions of taxpayer dollars to improper payments is the prospect of losing billions of additional dollars due to higher spending levels in programs that have in the past been prone to improper payments. In fact, out of the \$35 billion lost to taxpayers in FY 2003, Medicare accounts for nearly \$12 billion. If accounting and management at Medicare is not dramatically improved in short order, that number is likely to rise exponentially with implementation of the prescription drug benefit.

In order to resolve or at least mitigate the problem of improper payments by the federal government, the Office of Management and Budget (OMB) must enforce strict compliance with the “Improper Payments Information Act” and be vigilant in monitoring individual agencies to ensure that they are actively working to eliminate or dramatically reduce the frequency of improperly made payments.

In conclusion, it is most ironic that the government requires corporations to abide by strict accounting standards under the newly enacted Sarbanes-Oxley law, although nearly all federal agencies find it impossible to meet the standards imposed on the private sector. Taxpayers should expect more from government than rampant waste followed by widespread unwillingness to comply with the law. I urge the Committee to take the necessary steps to remedy this problem and to work closely with the OMB to ensure agency compliance.

Thank you, Chairman Platts for allowing NTU to testify today and for your work on this important topic. NTU and its 350,000 members stand ready to work with you in tackling the improper payments problem.