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

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Reducing Erroneous Payments

Mr. Chairman, I appreciate the opportunity to be before this Subcommittee again. One of the reasons I'm glad to be here is to continue the partnership that existed between the Administration and this Subcommittee in advancing many of the President's initiatives to improve the management of the Executive Branch. This partnership is critical to the success of our efforts, particularly in the area of erroneous payments. We will need changes in law – some of which have already been proposed – to improve our payment processes. I ask for your help to get those tools, which I will address in more detail in a moment.

Today we are discussing the President's initiative to reduce erroneous payments made with Federal dollars. This Committee is more familiar than most with the status of efforts in the government to address this critical problem.

Not long ago, based on General Accounting Office (GAO) compilations of erroneous payment estimates reported in agency financial statements, the estimate of government-wide erroneous payments was said to be around \$20 billion. GAO also said, "As significant as [this amount is], the actual extent of improper payments government-wide is unknown, is likely to be billions of dollars more, and will likely grow in the future

without concerted and coordinated efforts by agencies, the administration, and the Congress.”¹

That statement is as true now as it was when GAO made it last summer. What we can say is that we know a lot more and we’re doing a lot more than ever before about the extent and causes of erroneous payments made by the Federal government.

Reducing Erroneous Payments as Part of the President’s Management Agenda

As you know, Mr. Chairman, the President announced, as part of his Management Agenda, a renewed effort by the government to reduce erroneous payments. Initially, the initiative focused on the government’s major benefit programs. The Administration identified those programs that make payments in excess of \$2 billion annually, required those agencies to assess the risk of, estimate the extent of, and put in place a strategy to reduce erroneous payments. Based on the estimates of erroneous payments made in programs making almost \$1 trillion in payments annually, erroneous payments exceed \$35 billion a year. Error rates for those programs range from almost zero to more than 30%. This is an unacceptable situation. We have an urgent duty to the American taxpayer to improve our stewardship over their resources.

We should commend agencies like the Office of Personnel Management, which manages the Federal Employee Health Benefit Program (1.14% error rate) and the federal retirement benefit programs (.35% error rate), and the Department of Defense, which manages military retirement (.05% error rate), for keeping their error rates low. We should also commend programs like Medicare (6.30% error rate) and Food Stamps (8.66% error rate), which have shown remarkable progress in reducing erroneous payments.

¹ Report to the Ranking Minority Member, Committee on Governmental Affairs, U.S. Senate; *Financial Management, Coordinated Approach Needed to Address Government’s Improper Payments Problems*; General Accounting Office, Report GAO-02-749; August 2002.

Other programs for which we have estimated the rate of erroneous payments have not yet shown progress. For instance, the error rate in the Earned Income Tax Credit [EITC] program is almost 30%. Almost one in every three dollars for this program is paid incorrectly. Having identified the three basic causes of erroneous EITC payments -- income reporting errors; taxpayers claiming a qualifying child who was also the qualifying child of someone else with higher modified adjusted gross income (AGI); and married taxpayers who should have filed as “married-filing separately” rather than “single” or “head of household”-- we are taking common sense steps to reduce errors in this program. For most EITC recipients, the process to apply for and receive the credit will be as simple as before. For others where the IRS identifies a risk of erroneous information on a tax return, the IRS will require information from taxpayers sufficient to verify their eligibility for the credit. The President has requested additional resources to fund this effort. The investment will ensure that EITC payments are getting to those Congress intended to receive them and we will reduce erroneous payments by billions.

I want to emphasize that the Administration’s initiative to reduce erroneous EITC payments is not happening at the expense of the IRS’ efforts to pursue its other enforcement priorities. I am assured that the IRS is increasing its efforts to pursue with vigor those in the upper income brackets who would evade their taxpaying obligations.

Data Sharing as a Tool to Prevent Erroneous Payments

Another area where the error rate is unacceptably high is in housing subsidies. The Department of Housing and Urban Development (HUD) overpays more than two billion dollars annually in low-income rent subsidies. The causes: incomplete reporting of tenant income; improper calculation of tenant rent contributions; and failure to fully collect all outstanding rent. HUD has committed to a goal of a 50 percent reduction in these erroneous payments by 2005, but it needs more tools to achieve this goal. HUD needs access to the National Directory of New Hires so it can verify tenant income. Congressman Sessions recently introduced legislation – H.R. 1030 -- to grant HUD this

authority. If enacted, the legislation is expected to potentially garner up to \$5 billion in savings over ten years.

The Administration has requested similar authorities from Congress for other programs. One proposal would grant the State Workforce Agencies access to the National Directory of New Hires for quick detection of individuals who have gone back to work, but continue to collect unemployment compensation. Another proposal would grant the Department of Education the ability to verify the income reported on Federal student aid applications with income information reported to the Internal Revenue Service. Together, these proposals would prevent the waste of billions of dollars in erroneous payments over just the next several years.

I can not emphasize enough how critical Congressional support is to our efforts to reduce erroneous payments. As we learn more about why programs make erroneous payments, we will continue to need new tools to reduce them. I respectfully request, Mr. Chairman, this Subcommittee's active support for the proposals I mentioned above. These data sharing tools are important to prevent erroneous payments from going out the door in the first place.

More Rates to Come

It is remarkable that we now have error rates for programs that make almost \$1 trillion in payments annually. But those programs targeted as part of the President's Management Agenda make an additional \$300 billion in payments annually. With the passage of the Improper Payments Information Act, we are targeting more programs that make hundreds of billions of dollars in payments annually for which we have no adequate measure of erroneous payments. One of those programs targeted as part of the President's Management Agenda is Medicaid. Federal outlays for the Medicaid program will exceed \$160 billion in FY 2003. We are working hard with states to establish a methodology that could be used across the country to establish a uniform error rate. What we have found is not surprising. Insufficient documentation to support claims was a leading basis

for classifying a payment as erroneous. Other errors include payments for medically unnecessary services or errors in coding, billing, or processing. Our effort to examine the integrity of Medicaid payments should reduce errors in these areas.

Recovery Auditing

For those who are not aware, it is worth noting that this Subcommittee has shown superb leadership in the past in the area of erroneous payments. It was one of the first in Congress to propose the use of recovery auditing, the examination of an agency's contract payments to determine the extent of things like duplicate payments; errors on invoices; payments for items not received; mathematical or other errors in determining payment amounts and executing payments; and the failure to obtain credit for returned merchandise. As a result of legislation proposed by this Subcommittee, portions of recovered erroneous contract payments can now be used to pay for recovery auditing activities. Agencies are now using this tool to identify erroneous payments made, reveal why they were made, and, most importantly, prevent erroneous contract payments in the future.

Improper Payments Information Act

Of course, this Subcommittee also authored the recently enacted Improper Payments Information Act of 2002 (Public Law 107-300). This law requires agencies to identify those programs and activities in which there is a risk of erroneous payments; estimate the extent of erroneous payments in those programs and activities; and report to Congress all such programs and activities that make erroneous in excess of \$10 million. I am pleased to report that the Administration's guidance, required by law to be issued by the end of May, will be distributed to agencies this week. The result of this law and guidance will be greater uniformity in the estimation and reporting of erroneous payments. For instance, agencies will be required to estimate the extent of erroneous payments based on a statistical sample with 90% confidence and 5% precision. And they will be required to

report the extent of their erroneous payments in their annual Performance and Accountability Reports.

Through all of these activities, we are improving the payment accuracy of government programs and activities. The urgent duty I spoke of earlier is to ensure that American's tax dollars are administered with the greatest integrity. Where we identify problems in payment processes, we are working diligently to address them. Where we don't know the extent of the problem, we will find it out. The end result will be better administered programs and fewer wasted dollars. We are at the beginning of the race to reduce erroneous payments, but it is one that we can win with your continued support.