

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

**Before the
Subcommittee on Government Efficiency and Financial Management
Committee on Government Reform
United States House of Representatives
April 15, 2004**

**The Improper Payments Information Act of 2002 and the
Efficient Use of Taxpayer Dollars**

Thank you, Mr. Chairman.

I appreciate the opportunity to testify before this Subcommittee again on the subject of the propriety of government payments. I am also pleased to be spending the afternoon in York, Pennsylvania, which is close to my family's home in Lancaster County.

Let me first say that eliminating improper payments by the Federal Government has been, and continues to be, a major management focus of this Administration. We strongly feel that one of the most important requirements in executing our missions is responsible spending and the efficient stewardship of taxpayer dollars.

It is the goal of this Administration to ensure that every dollar spent by the Federal Government is a dollar that is spent wisely and for the purpose for which it is intended. No payment made by the government should be wasted or spent in an improper or erroneous fashion. Given the Federal Government's current budget in excess of \$2 trillion annually and the many important competing priorities and programs, our mission is more important now than ever before.

Since the President's Management Agenda (PMA) was first announced in 2001, the elimination of improper payments has been a key component of the Improving Financial Performance initiative. As part of this initiative, we have been working very hard with Federal agencies to identify and eliminate improper payments within major programs and activities.

Specifically, it is our job at the Office of Management and Budget (OMB) to make certain that government agencies review their payments and assess whether a risk of improper payment exists. If such a risk does exist, then corrective action must be taken to ensure that the improper payment does not occur again. We anticipate that ongoing agency efforts will ultimately lead to a review of every single dollar that the government spends to ensure that taxpayer money is spent for the purpose for which it was intended.

Initially, the effort to eliminate improper payments focused on Federal programs making annual payments in excess of \$2 billion. Included were 40 programs, found within 15 different agencies, such as the Earned Income Tax Credit (EITC), Highway Planning and Construction, Medicare, Medicaid and TANF. Those programs were first required to assess the risk of, and estimate the extent of, their improper payments, and then to implement a strategy to eliminate them. The agencies were directed to follow the necessary requirements set out in Section 57 of OMB Circular A-11 and report on the programs in their annual budget submissions.

Collectively, the Section 57 programs comprised about \$1 trillion in government spending – nearly half of all annual government expenditures. We estimate that improper payments exceed \$35 billion a year out of the \$1 trillion in spending by these programs. Needless to say, this is an enormous amount of money being spent in an improper fashion, and we have a duty to the American taxpayers to eliminate such improper payments.

Our goal to eliminate improper payments as first envisioned in the PMA was later endorsed by the Improper Payments Information Act (“IPIA” or “the Act”) enacted by Congress in 2002. The IPIA extended the scope of review from Section 57 programs to all major agency programs and activities. It is the Administration’s belief that the provisions of the Act, combined with the Section 57 reviews that were already underway, will help to ensure that all Federal dollars are spent only for the purpose for which they were intended.

Following the enactment of the IPIA, in May of 2003 the Administration provided guidance (OMB Memorandum M-03-13) for agencies to comply with the Act. This guidance outlined six steps that each agency must follow to properly identify and eliminate improper payments. These particular steps are as follows:

- 1) Compile an inventory of all payments/outlays.
 - Identify all payment streams in every program.
- 2) Conduct risk assessments.
 - Identify those programs the agency believes have an error rate of at least 2.5% and an error amount in excess of \$10 million.
- 3) Conduct statistical analyses.
 - Take a sample of payments in those programs identified in Step 2 above.
 - Track those payments through an audit/verification process to assess error.
 - Use information found in the sample to extrapolate an error rate and amount for the program as a whole.
- 4) Develop corrective action plans.
 - For those programs in Step 3 above that are found to have in excess of \$10 million in improper payments, develop a plan for eliminating those payments.

- 5) Develop a baseline and improvement targets.
 - For programs that have corrective action plans, agencies must establish reduction targets for future years.
- 6) Report results annually in the Performance and Accountability Report (PAR).
 - PARs are to be submitted by November 15 each year.

The Administration is actively working with the major agencies to ensure that each is complying with the IPIA and working toward completion of the six steps set out in the Administration's guidance.

In the fall of 2003, I personally met with the Offices of the Chief Financial Officer (CFO) and the Inspector General (IG) of each major agency to ensure that plans to meet the requirements of the Act were being developed. Following these meetings, we directed all agencies to submit by November 30, 2003, their plan for complying with the Act. All of the agencies met this goal. After our review of the plans, in January of 2004 we responded in writing to all agency CFOs with specific comments and questions about their proposals.

Subsequent to this correspondence, we held another series of meetings with the CFO offices of the major agencies this past February and March. At these meetings, we finalized the agency plans to comply with the IPIA and directed the agencies to set specific target dates for completing the required steps to ensure that results are achieved on a timely basis. We now have specific dates in which the key milestones are expected to be completed, and we will track each agency's progress in meeting these deadlines over the course of the coming months.

At this point, most agencies have completed the compilation of their program inventories. Over the course of this year, most agencies are expected to complete the remaining steps on the following schedule: risk assessments by the end of May; statistical sampling by the end of June; and corrective action plans, baseline and improvement targets by the end of September. All agencies are then required to report their activities relating to the elimination of improper payments in their 2004 PARs, which are to be issued on November 15, 2004. During these next seven months and beyond, we will be working with the agencies to make certain that progress is made, target dates are met, milestones are completed, and results are achieved.

Following the most recent meetings with the agency CFO offices, we are confident that, while progress is being made, significant challenges remain. Most notably, we are working with the agencies to develop cost-effective approaches for tracking improper payments at each stage of the payment lifecycle. In other words, we want to follow the dollar from the Federal agency through any intermediary and ultimately to the individual recipient. The more complex the program, the more challenging it is to track these payments and thus establish an annual national error rate. Even for the most complex programs, however, we are developing solutions that will enable us to implement appropriate financial management improvements and obtain the information necessary to gauge results on an annual basis.

The earlier described planning, risk assessing, and sampling processes are all tools and necessary steps to achieving the real purpose of our efforts – the elimination of improper payments. It remains the goal of this Administration to ensure that each taxpayer dollar is spent wisely, efficiently, and for the purpose for which it was originally intended. We are committed to this endeavor until our objective has been achieved.

Thank you, Mr. Chairman. I am happy to entertain your questions.