

Chairman's Statement
"An Assessment of the Improper Payments Information Act of 2002"

December 5, 2006

Improper payments isn't a glamorous topic. Accounting systems and standards set by Congress and finessed by the Administration don't make headlines. But this country is in a crisis. We are at war. We have a deficit in the hundreds of billions and a debt limit at \$9 trillion. We've got a generation of Americans about to retire and rely on bankrupt Federal entitlement programs. The President is asking for \$150 billion in "emergency" – that is, over-budget - war spending. No amount of waste is ever acceptable but our efforts to track down every penny need to be all the more aggressive in our current fiscal climate. Does it take resources to make our improper payments policy more comprehensive? Sure. But every employee we devote to ending payment errors more than pays for his own salary in the billions that are being lost every year.

There has been some controversy about today's topic. We're not here to examine individual agency performance or to quibble about the validity of certain program reporting estimates, as we have done in our previous hearings. And let me be clear - we're not here to complain about or criticize the Office of Management and Budget's performance on improper payments. What OMB faced when this President first took office was a Katrina-sized accounting problem at every Federal agency. Before Congress had even passed the Improper Payments Information Act, this President recognized the alarming scope of the problem and set to work with a major initiative to reduce payment errors. Congress came in a little later and passed the Act.

The intent of the Act was pretty clear – clean up the whole problem, not just the squeakiest wheels. However, when you're facing a Katrina-sized problem and you have limited staff resources at OMB and the agencies, you have to triage. Congress gave OMB some discretion to set some rules about where to start. I would argue that some agencies did a pretty haphazard job of following those rules, but even among the agencies who complied fully –the rules - perhaps understandably - were aiming for the low-hanging fruit rather than a comprehensive solution.

Some have argued that OMB's definition, by not being comprehensive enough, violated Congressional intent. Let me speak in OMB's defense. They inherited a trainwreck and they made some judgment calls. They will argue today that they needed to make serious progress right away and focusing on the perfect would have impeded progress on the good. They will argue today that they took care of 95 percent of the problem with their rules. I think there's some good evidence to suggest that's not quite the case, and we can discuss that more today. But I just want to personally applaud OMB for their fantastic work on this issue. They faced a Katrina-sized fiscal disaster and they rightly fixed highways, bridges and hospitals before they got around to clearing tree stumps and filling side-street potholes.

That said, we are now approaching the 5-year mark on the Improper Payments Information Act, and I think there's nothing wrong with commending this President on the accomplishments to date while still asking him step it up a notch. I think our friends in the Gulf coast area would agree that while the first efforts in Katrina recovery needed to be on the low-hanging fruit, ultimately they want that neighborhood debris removed and schools rebuilt. In other words, five years in, it seems reasonable to start looking at how to build on the successes and lessons learned of the first five years and cobble together a more comprehensive approach to the problem of payment errors.

The first step to reducing payment errors is knowing how many errors are being made. I'm concerned that the reporting on these errors – just getting a baseline estimate from which to measure later progress – is not always optimal. For those unfamiliar with the Improper Payments Information Act, it first requires agencies to review ALL programs and activities annually and identify those that may be susceptible to significant improper payments. Congress directed OMB to prescribe guidance for agencies to annually review all programs and activities. What Congress did NOT do, however, was direct OMB to define this susceptibility for agencies. Nonetheless, OMB defined susceptible programs as those whose improper payment amounts exceed BOTH 2.5 percent AND \$10 million. This leaves out a large number of government programs. For example, the Social Security Administration's Old Age and Survivors' Insurance represents \$493.3 billion in outlays, yet because their improper payment rate is only .74 percent, they are not required to estimate improper payments and address other improper payment reporting requirements in the Act.

Let me explain why the threshold may not be ideal: Of the 23 agencies that reported assessing "all" programs and activities for risk, 6 limited their risk assessment reviews to only those programs that would likely meet OMB's definition. Two of these six agencies reported that they did not perform a complete risk assessment because the programs would not have exceeded both of OMB's threshold criteria. The remaining four agencies did not perform a complete risk assessment of programs with annual outlays ranging from \$40 million to \$200 million, generally citing the threshold criteria as the reason why these medium-sized programs weren't assessed. In this way, OMB's definition of susceptibility has ironically prevented some agencies from complying with the Act.

While it's not my intention to criticize OMB's past performance – their efforts have been unprecedented and rigorous – it's important that we learn from the past in order to improve the future. I've found that good work always leads to more work. The better someone is at his job, the more he realizes there's always more to do. So I hope this hearing will provide an opportunity to look at some of the challenges faced so far in addressing payment errors, and we can start talking about how to overcome those challenges, either with or without legislation.

To that end, GAO has done outstanding work. It is GAO's job to be the thorn in every Administration's side – to commend the good while still demanding the perfect. To shine light on what works and to expose what doesn't. The job of Congress is not to pick "sides," but to look at GAO's findings in light of the substantial success and remaining challenges of the Administration and the statute at hand, and to use those findings as a tool to improve upon legislation, oversight or both. So thank you to both Mr. Johnson and General Walker for being here and helping to do that.