



Don Nickles, Chairman
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Waste, Fraud, and Abuse Programs: House Budget Committee Hearing, 6/18

- \$ Section 301 of the FY2004 Budget Resolution instructs most authorizing committees to identify changes in law for mandatory spending programs under their jurisdictions that will achieve savings through the elimination of waste, fraud, and abuse. The goal set for each committee is to identify one percent in savings for each dollar they spend. The committees are to report their findings by September 2nd. The House Committee on the Budget recently held a hearing on waste, fraud, and abuse with GAO Comptroller General David M. Walker and Robert S. McIntyre, director of Citizens for Tax Justice.
- \$ Why just focus on mandatory spending programs? Mandatory spending makes up 54% of total federal spending. Mandatory programs are by definition assumed in the baseline and not automatically subject to annual congressional review as are appropriated discretionary programs. However, sporadic reassessment of these programs are quite necessary in achieving fiscal discipline and eliminating mismanagement within authorizing committees.
- \$ General Walker noted that “a fundamental reassessment of government programs, policies, and activities can help weed out programs that are outdated, ineffective, unsustainable, or simply a lower priority than they used to be. Government cannot accept as “givens” all of its existing major programs, policies, and operations, especially when most inter-program organizations are beyond the direct control of the federal government.”
- \$ In 1990, GAO began a program administered once every two years reporting on government operations they identified as “high risk.” This label helps pinpoint areas of mismanagement of taxpayers’ dollars and those that pose a threat to the integrity of government operations. General Walker pointed out many areas of high risk and administered ideas to help augment the program’s operations. For each listed program, GAO primarily focuses on its improper payments, including “inadvertent errors, such as duplicate payments and miscalculations; payments for unsupported or inadequate supported claims; payments for services not rendered; payments to ineligible beneficiaries; and payments resulting from outright fraud and abuse by program participants and/or federal employees.” In the federal government, improper payments occur in a variety of program operations, including those related to contractors and contract management (such as defense); Medicare and Medicaid; Food Stamps and housing subsidies; and tax refunds, to name a few.
- \$ **Medicare/Medicaid:** In FY2001 (the last time the ‘high risk’ programs were identified), Medicare outlays totaled about \$257 billion and Medicaid outlays reached \$228 billion (with the federal share about 57 percent). Since 1996, annual audits by the Department of Health and Human Services’ Office of the Inspector General have found that Medicare contractors have improperly paid claims worth billion of dollars—\$12.3 billion in FY2002 alone. Some examples

of Medicare's excessive payments: in 2001, Medicare paid \$3.34 per unit for Ipratropium bromide although it is widely available for \$0.77 per unit; Medicare also paid \$588 for leuprolide acetate although it was widely available at a cost of \$510. GAO has also provided recommendations to the Medicaid program to curb state financial schemes. General Walker explained that some states have "created the illusion that they made large Medicaid payments to providers while in reality they only made temporary electronic funds transfers that the providers were required to return." In some cases, states have used federal payments for purposes other than Medicaid.

- \$ **DOD:** The Department of Defense has struggled with improper payments to contractors. DOD managers do not have the important information needed for effective financial management, leading DOD to overpay contractors by billions of dollars over the past eight years. Cost increases, performance issues, or schedule delays have also set back two of DOD's key long-term initiatives: the Defense Procurement Payment System, which is intended to be DOD's standard contract payment system, and the Standard Procurement System, which is intended to be DOD's single, standard system to support contracting functions and combine with financial management functions. GAO has given DOD many recommendations to improve its operating system.

- \$ **EIC:** The EIC program has one of the worst error rates of any government program. The IRS estimated in 2002 that of the \$31.3 billion in earned income credits claimed by taxpayers in tax year 1999, almost 30 percent—between \$8.5 billion to \$9.9 billion—should not have been paid. According to IRS, three areas—qualifying child eligibility, improper filing status, and income misreporting (i.e. underreporting)—account for nearly 70 percent of all EIC refund errors. General Walker noted that the IRS has a difficult job of administering the EIC due to its overly complex provisions and has taken steps towards improving its management. Early in 2002, the Assistant Secretary of the Treasury and the IRS commissioner established a joint task force to seek new approaches to reduce EIC noncompliance.

- \$ General Walker touched on other programs to which have exhibited waste, fraud, and abuse:
 - ! **Uncollected taxes:** By the end of FY2002, IRS had deferred collection action on about one out of three collection cases and had an inventory of \$112 billion of known unpaid taxes
 - ! **Fraud in Student Aid Programs:** One individual in Los Angeles, who was convicted of student aid fraud, conducted weekly seminars for parents and students, charging \$300 for the programs at which he advised and assisted them in preparing student aid applications that deliberately misstated their income or dependency status. The potential government loss from his actions alone was about \$800,000
 - ! **Purchase Card Abuses:** At the Department of Education, a purchase cardholder made several fraudulent purchases from two Internet sites for pornographic services. The name of one of the sites—Slave Labor Productions.com—should have caused suspicion when it appeared on the employee's monthly statement. The chart below also lists a few examples of abusive travel card activities used by an Air Force cardholder:

Examples of Abusive Air Force Travel Card Activity

Category	Examples of vendors	Number of transactions	Approximate dollar amount
Cruises	Carnival, Celebrity, Norwegian, and Princess	70	\$31,000
Gambling	Global Cash Access	79	\$14,000
Sports, concerts, and other events	Dallas Cowboys, Backstreet Boys, and other Ticketmaster purchases	223	\$31,000
Gentlemen’s clubs	Cheetah’s Lounge, Déjà vu Showgirls	187	\$32,000

! **HUD:** HUD rental subsidy overpayments: HUD manages about \$550 billion in insurance and \$19 billion per year in rental assistance. HUD estimates that rental subsidy overpayments in FY2000 were \$2 billion—over 10 percent of total program expenditures. A significant portion of this overpayment is attributable to tenants’ underreporting of income.

§ The bulletin noted with regret published accounts that some members of Congress believe that the Budget Committees’ request to investigate waste, fraud, and abuse is unrealistic and should be “ignored.” SBC prefers that authorizing committees provide recommendations for savings within their jurisdictions. If those recommendations are not provided, the Budget Committees will develop them ourselves. On that note, the bulletin focuses on a few problems within food assistance programs taken from General Walker’s testimony:

! Because of its broad span of benefits (15 programs) administered by the U.S. Department of Agriculture (USDA), serious challenges come into play for USDA in ensuring that eligible individuals receive the proper benefits from the food assistance program. In FY2001 the Food Stamp program alone provided \$17.3 million individuals with more than \$15.5 billion in aid, and about 149,000 authorized retail outfits accept food stamps. While the error rate on food stamps is lower than it has ever been (8.6%), the Food and Nutrition Service continues to face serious challenges within the food stamp program. For example, USDA estimated that for FY2001, payment errors totaled about \$1.4 billion—about \$1 billion in overpayments and just under \$400,000 in underpayments. Net waste of taxpayer funds: \$600 million.

! A process known as “trafficking”—when individuals illegally sell their benefits for cash—is not uncommon in the food stamp program. In its most recent report on trafficking (March 2000), USDA estimated that about 3.5 cents of every dollar of food stamp benefits administered each year from 1996 through 1998 was trafficked—about \$660 million. As a result of GAO’s continued recommendations, the Food and Nutrition Service, as well as the USDA, have intensified management evaluations and are taking steps to improve programs within their jurisdictions.

Most instances of waste, fraud, abuse, and mismanagement within government programs stem from the programs' complexity, size, or underutilization (DoD alone estimates that it spends about \$3 to \$4 billion per year maintaining unneeded facilities). Efforts to assure prudent use of taxpayer funds, efforts to guard against waste, fraud, abuse, and mismanagement, and efforts to improve economy, efficiency, and effectiveness must encompass not only discretionary programs within the budget but also mandatory programs and tax policy, including tax incentives.

Source: "Federal Budget: Opportunities for Oversight and Improved Use of Taxpayer Funds,"
Testimony of David M. Walker, Comptroller General of the United States, before the
Committee on the Budget, U.S. House of Representatives.