

**CFO-PCIE Improper and Erroneous Payments Work Group
Sub-Work Group Report on Benchmarks
November 15, 2002**

The mission of the Indicators sub-work group is to establish indicators that identify the nature and extent of the problem and can aid Federal agencies in measuring their progress in reducing and preventing improper and erroneous payments. The Indicators sub-workgroup's specific tasks are to prepare a set of indicators that represent the nature and extent of the problem of improper and erroneous payments in Federal agencies, and establish Federal benchmarks.

This report is the second work product produced by the Indicators sub-work group and represents the results of our work on benchmarks. The Indicators sub-work group has surveyed agencies concerning existing use of benchmarks, analyzed the survey responses, and identified various obstacles to the use of benchmarks. In addition, feeding off of work performed by the Critique sub-work group, the Indicators sub-workgroup further analyzed the FY 2003 Office of Management and Budget (OMB) Circular A-11, section 57 – Information on Erroneous Payments for information relevant to benchmarking.

Benchmarks.

The Indicators sub-work group surveyed agencies concerning existing use of indicators and benchmarks and found confusion concerning the benchmarking process. For purposes of our discussions we are providing the following working definition:

The process of continuously measuring performance and comparing against best performing organizations to gain information on best practices that will help your organization improve its performance.

Limitations.

The vast majority of improper and erroneous payments occurring in the Federal government are related to its major benefit, loan, grant and entitlement programs. In accordance with OMB Circular A-11, erroneous payment information must be provided for these major programs with initial budget submissions. However, as discussed in the limitation section of our first report, differences in the nature of the programs, the way the programs are administered, and legislative restrictions placed on the programs make the measurement, comparison and benchmarking of erroneous payment information extremely difficult.

Results.

To determine the extent of benchmarking being used by agencies, the Indicators sub-work group surveyed agencies concerning existing use of benchmarks, analyzed the agency responses to a Congressional Inquiry on erroneous payments, and analyzed OMB Circular A-11 erroneous payment information agencies submitted with their FY 2003 budget requests.

Agencies were asked in our survey to provide an opinion on the payment categories best suited for benchmarking, what payments were currently being benchmarked by agencies, and to provide any other comments or suggestions concerning the establishment of benchmarks. Many agencies stated that the OMB Circular A-11 programs categories were the best candidates for benchmarking; and to a lesser extent, agency commercial, administrative travel and payroll payments, could be benchmarked. Fifteen of thirty-one agencies responding to the sub-work group's survey reported some form of benchmarking. However, we noted that some benchmarks identified were not benchmarks but processes/methods. Agencies also stated that benchmarking should not be mandatory for all agencies; that the nature, size and differences in agency programs must be considered when establishing benchmarks; and that benchmarking only be performed when cost beneficial and when funding to perform the benchmarking was provided. Suggestions for benchmarking improvement goals also varied and appeared to relate to specific programs being administered.

We found that the agency OMB Circular A-11 erroneous payment information submitted with the FY 2003 budget was limited and could not be used for comparison or benchmarking purposes. Reported erroneous payments ranged from \$0 to \$12.1 billion with rate ranges of 0.00% to 31.4% of total funding/payments. Median erroneous payment rates were 1.7%, 5.8% and 5.4% in FY 1999 through 2001 respectively, with an overall median erroneous payment rate of 5.3%. The recent revisions to OMB Circular A-11 will hopefully result in better and more comparable erroneous payment information being submitted by agencies in the future.

We reviewed the Inspector General (IG) and agency responses to the Congressional inquiry on erroneous payments and found that the erroneous payment information reported was generally comparable for fiscal years 1999 and 2000 but not for 2001. The erroneous payments reported by the fourteen agencies for fiscal years 1999 through 2001 ranged from \$65 thousand to \$13.5 billion per year with average erroneous payments made per agency of \$2.1 billion, \$1.9 billion and \$212 million in FY 1999 through 2001 respectively. Median erroneous payments reported were \$55.6 million, \$100 million and \$18 million in FY 1999 through 2001 respectively.

Legislation.

On June 6, 2002, a bill was introduced in the House of Representatives "To provide for estimates and reports of improper payments by Federal agencies." This bill passed the House and passed the Senate and has been cleared for the White House as of November 12, 2002. Both the House and Senate versions of the bill would require executive agencies to annually review all programs and activities, and estimate the amount of improper payments. For programs and activities that estimate erroneous payments in excess of \$10,000,000 annually, agencies must prepare a report on actions being taken to reduce the improper payments. If enacted, this legislation could potentially serve as a baseline for benchmarks for comparison and reporting for some agencies.