

and repeatedly documented these problems. They don't need more general discussion; they need solutions.

The bill I introduce today will go a long way toward solving one of the most serious areas of waste and error—overpayments to vendors and others that provide goods and services to federal agencies. The bill deals with the problem by applying a proven practice from the private sector known as "recovery auditing."

The bill requires agencies to conduct recovery auditing to identify and collect back erroneous payments for programs that spend \$10 million or more annually. This should result in recoveries to the taxpayers of at least \$1 billion each year. The bill also provides agencies the means and incentives to make lasting improvements in their financial management that will reduce future overpayments, and other forms of waste and error.

The practice of recovery auditing is actually quite simple. Here's how it works:

Recovery auditors review payment transactions to uncover errors such as vendor pricing mistakes, missed discounts, duplicate payments, and so forth. The vast majority of payment transactions are correct. But inevitably, some errors occur because of communication failures between purchasing and payment departments, complex pricing arrangements, personnel turnover, and changes in information and accounting systems.

Once an error is identified and verified through the review of transactions, a notification letter is sent to the vendor for review. Monetary recoveries are usually accomplished through administrative offsets.

Recovery auditing has been used successfully by private sector firms for over 30 years. It began with major retailers and is now an accepted business practice among Fortune 1000 companies. It has helped even well-managed companies recover millions of dollars annually in overpayments to their vendors. It clearly has the potential to recover billions annually in federal overpayments, given the magnitude and complexity of federal payment programs coupled with the serious financial management problems that plague most agencies.

In places where recovery auditing has been tested in government, it has proven effective. The Army Air Force Exchange System (AAFES) has contracted with a recovery auditing firm since 1991. AAFES makes purchases of approximately \$6.5 billion annually. Over the last 7 years, \$108 million has been recovered.

In another example, the Defense Department has been conducting a recovery auditing demonstration program at several of its locations. Roughly \$6 billion in purchase transactions are being reviewed in this audit. This program is nearing completion and has identified over \$24 million in overpayments. These results were achieved despite the fact that most of the payments audited were 4 to 6 years old and agency records were incomplete.

The potential financial benefits to the federal government from recovery auditing are enormous, and can conservatively be estimated at well over \$1 billion annually. Experience thus far with recovery auditing in the federal government shows an error rate of about 0.4 percent, of four times the private sector error rate. Given that federal procurements total about \$170 billion per year, recoveries from procurement dollars alone could average at least \$680 million annually.

Here's what my bill does:

It establishes a general mandate that all Executive branch agencies use recovery auditing for all of their activities that involve recurring payments totaling at least \$10 million per year to vendors and other service providers. The scope of this mandate is very broad. It covers not only payments under procurement contracts, but also payments to fiscal agents, like consultants, who perform services on behalf of the federal government and are reimbursed from federal funds.

Exceptions from the bill's coverage could only be made by the Director of the Office of Management and Budget (OMB) in cases where he determines that recovery auditing would be impractical.

In addition to its general mandate for recovery auditing, the bill requires OMB to designate at least five agency recovery auditing model programs to receive particular attention and provide best practice for other federal recovery auditing programs.

If OMB provides strong leadership, and if agencies vigorously implement the bill's requirements as intended, recoveries to the federal government should amount to billions of dollars each year. This in itself will go a long way toward mitigating the effects of the pervasive waste and error that now occurs in federal payment programs. However, requiring agencies to identify and recoup overpayments is only one of the bill's key objectives. The other is to remedy the root causes that gave rise to the overpayments in the first place.

The bill contains two remedial measures. One requires that recovery auditing contractors periodically report to agencies on the conditions they find to have caused overpayments and provide recommendations for fixing them. The agency must take prompt action in response to these reports.

The second remedial measure is to dedicate up to 50 percent of overpayment recoveries to invest in management improvement programs that each agency must undertake. These programs will improve the agency's staff capacity, information technology, and financial management in order to prevent overpayments and reduce other problems of waste and error.

One particular feature of agency management improvement programs deserves special note. The bill provides for cash incentive awards of up to \$150,000 for federal employees who make extraordinary contributions that result in concrete savings to their agencies from reductions in waste or error. One specific condition is that the employee or employees must be directly responsible for documented savings of at least twice the amount of their awards. Dedicated federal employees can be valuable front line soldiers in combating waste and error. When they accomplish major results, they deserve major rewards.

In addition to the 50 percent reserved for management improvement programs, the bill allows agencies to use up to 25 percent of collections from recovery audits to finance their recovery auditing costs, including making payments to contractors. Agencies can return another 25 percent of collections to the programs and activities from which the overpayments originated. Any collections not used for these purposes will be returned to the Treasury.

Mr. Speaker, my bill lays out an ambitious program of immediate and aggressive action to recover wasted tax dollars and achieve

large annual savings for the federal government through application of the private sector business practice of recovery auditing. It also ensures a long-term investment in the fundamental management reforms so badly needed to achieve lasting improvements in the way the federal government does business. It includes bold and innovative measures such as unprecedented incentives for federal employees to combat waste.

The bill also contains controls and safeguards to ensure that its system of incentives is applied most effectively and is not abused. It assigns OMB substantial authority and responsibility to provide guidance and oversight. It provides for periodic reporting by both OMB and GAO. It envisions that Congress will likewise provide active oversight, including reviewing and, if necessary, modifying funding levels through reprogramming actions and other means.

I believe that this bill holds great potential to achieve substantial cost benefits for the government and the American taxpayers, as well as major improvements in the efficiency and effectiveness of agency operations throughout the government.

HONORING THE MARK SHORE
MEMORIAL BIKE TEAM

HON. CONSTANCE A. MORELLA

OF MARYLAND

IN THE HOUSE OF REPRESENTATIVES

Monday, May 17, 1999

Mrs. MORELLA. Mr. Speaker, I rise today in recognition of the Mark Shore Memorial Bike Team. This devoted team helped raise money to fight the chronic and debilitating disease of multiple sclerosis in the 17th Annual Snow Valley MS 150 Bike Tour. The inspirational bike team, consisting of Shore family members and close friends, was formed out of respect and love for Mark Shore.

Mark was born and raised in the Washington, DC metropolitan area. He died of MS-related complications on November 25, 1998. Mark is perhaps best known for serving as a two-term commissioner on the Montgomery County, Maryland Commission on People with Disabilities. He was very active in my district, consistently fighting for disability rights. I am proud to say that Mark was very instrumental in the implementation of many transportation-accessibility initiatives in Montgomery County, such as sidewalk curb cuts. His dedication to improving the lives of others with disabilities will not be forgotten.

The Mark Shore Memorial Bike Team set an ambitious goal to raise more money to fight multiple sclerosis than any other team in history. Mark's parents, Senator Frank and Josie Shore, brothers and sisters, friends and team co-captain Michael Gresalfi set a goal to raise over \$25,000. The team was supported by many community members whose donations will help to end the devastating effects of multiple sclerosis.

Today, we thank the Mark Shore Memorial Bike Team for their tribute to Mark Shore, a man who did so much for the disabled community during his short life.