



Highlights of [GAO-07-635T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

Why GAO Did This Study

The federal government is accountable for how its agencies and grantees spend hundreds of billions of taxpayer dollars and is responsible for safeguarding those funds against improper payments as well as for recouping those funds when improper payments occur. The Congress enacted the Improper Payments Information Act of 2002 (IPIA) and the Recovery Auditing Act to address these issues. Fiscal year 2006 marked the 3rd year that agencies were required to report improper payment and recovery audit information in their Performance and Accountability Reports.

GAO was asked to testify on the progress agencies have made in these areas. Specifically, GAO focused on (1) trends in agencies' reporting under IPIA from fiscal years 2004 through 2006, (2) challenges in reporting improper payment information and improving internal control, and (3) agencies' reporting of recovery auditing efforts. This testimony is based on GAO's previous reports on agencies' efforts to implement IPIA requirements for fiscal years 2005 and 2004 and current review of available fiscal year 2006 improper payment and recovery auditing information. The Office of Management and Budget (OMB) provided technical comments that were incorporated as appropriate.

www.gao.gov/cgi-bin/getrpt?GAO-07-635T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9095 or williamsm1@gao.gov.

IMPROPER PAYMENTS

Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements Continue

What GAO Found

GAO identified several key trends related to IPIA reporting requirements.

- **Risk assessments.** For fiscal years 2004 through 2006, some agencies still had not instituted systematic methods of reviewing all programs and activities or had not identified all programs susceptible to significant improper payments. Further, certain agencies' risk assessments appeared questionable. GAO also noted that OMB's recently revised IPIA implementing guidance, which allows certain agencies to perform risk assessments every 3 years instead of annually, may result in fewer agencies conducting risk assessments in the future.
- **Improper payment estimates.** Since fiscal year 2004, agencies have made some progress in reporting improper payment information. The number of programs reporting improper payment estimates for fiscal year 2004 totaled 41, compared to 60 programs for fiscal year 2006. The total improper payments dollar estimate was \$45 billion in fiscal year 2004, \$38 billion in fiscal year 2005, and about \$42 billion in fiscal year 2006.
- **Noncompliance issues.** Although not currently required by IPIA to do so, some agency auditors continued to report problems related to agencies' risk assessments, definition of programs for IPIA purposes, sampling methodologies, lack of reporting for all risk-susceptible programs, and supporting documentation.

Although showing progress under OMB's continuing leadership, agencies' fiscal year 2006 reporting under IPIA does not yet reflect the full scope of improper payments. Major challenges remain in meeting the goals of the act and ultimately improving the integrity of payments. First, some agencies have not yet reported for all risk-susceptible programs. For example, the fiscal year 2006 total improper payment estimate of about \$42 billion did not include any amounts for 13 risk-susceptible programs that had fiscal year 2006 outlays totaling about \$329 billion. Second, certain methodologies used to estimate improper payments did not result in accurate estimates. Finally, GAO noted that internal control weaknesses continued to plague programs susceptible to significant improper payments.

From fiscal years 2004 through 2006, the number of agencies reporting recovery auditing information for contract overpayments and the dollar amounts identified for recovery and actually recovered increased. For fiscal year 2004, 12 agencies reported recovering about \$53 million, compared to 18 agencies that reported recovering about \$256 million for fiscal year 2006. Given the large volume and complexity of federal contract payments and historically low recovery rates for certain programs, GAO emphasized that it is much more efficient to pay bills properly in the first place. Effective internal control calls for a sound, ongoing invoice review and approval process as the first line of defense in preventing erroneous payments.