



GAO

Accountability * Integrity * Reliability

Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

February 27, 2007

The Honorable Thomas R. Carper
Chairman
The Honorable Tom Coburn
Ranking Member
Subcommittee on Federal Financial Management,
Government Information, Federal Services,
and International Security
Committee on Homeland Security and Governmental Affairs
United States Senate

Subject: *Improper Payments: Posthearing Responses on a
December 5, 2006, Hearing to Assess the Improper Payments
Information Act of 2002*

On December 5, 2006, we testified¹ before your subcommittee at a hearing entitled, “An Assessment of Improper Payments Information Act of 2002.” At the end of the hearing, the subcommittee asked us to provide information regarding (1) barriers inhibiting agencies’ efforts to prevent and reduce improper payments, (2) legislative reforms needed to facilitate agencies’ efforts to prevent improper payments, and (3) suggested language to amend the Improper Payments Information Act of 2002 (IPIA) that would provide more complete disclosure and transparency of agencies’ improper payments reporting.

First, we identified several key barriers that agencies encounter in their quest to reduce improper payments, such as the inability to share data and restrictions in the program’s administration. In some cases, legislation limits the type of information that can be shared among agencies to verify data provided by applicants for government programs or benefits or to make eligibility decisions. For example, we reported² in November 2006 that the Department of Education reported that section 6103 of the Internal Revenue Code concerning confidentiality of the tax return information precludes data matching. We also reported³ in October 2005 that the United States Citizenship and Immigration Services, a component of the Department

¹GAO, *Improper Payments: Incomplete Reporting under the Improper Payments Information Act Masks the Extent of the Problem*, GAO-07-254T (Washington, D.C.: Dec. 5, 2006).

²GAO, *Improper Payments: Agencies’ Fiscal Year 2005 Reporting under the Improper Payments Information Act Remains Incomplete*, GAO-07-92 (Washington, D.C.: Nov. 14, 2006).

³GAO, *Taxpayer Information: Options Exist to Enable Data Sharing Between IRS and USCIS but Each Presents Challenges*, GAO-06-100 (Washington, D.C.: Oct. 11, 2005).

of Homeland Security (DHS) reported that it was not authorized to receive taxpayer information from the Internal Revenue Service (IRS) directly to determine eligibility for immigration benefits. Barriers related to program administration involve some aspect of an agency's current program structure that limits its actions to prevent or reduce improper payments. However, the agency can take steps to modify current program operations to help prevent improper payments. For example, we recommended⁴ in June 2006 that DHS enter into an agreement with other agencies, such as the Social Security Administration, to periodically authenticate information contained in the Individuals and Households Program registrations to prevent individuals from applying for assistance using Social Security numbers that were never issued or belonged to deceased or other individuals.

Second, regarding legislative reforms, the Budgets of the U.S. Government for Fiscal Years 2008 and 2007 include proposed actions to facilitate better measurement and detection of improper payments. We continue to support the administration's proposed legislative reforms that assist agency action to reduce improper payments, such as imposing penalties for fraud, improving benefit coordination between agencies, and simplifying eligibility requirements. Specifically, since fiscal year 2000, our recommendations have been aimed at raising the level of attention given to improper payments, including annually estimating, reporting, and reducing improper payments for agencies' programs. Our work on governmentwide improper payments and issuance of our executive guide on strategies to manage improper payments⁵ led to the passage of IPIA. The act requires that executive branch agency heads identify programs and activities susceptible to significant improper payments, estimate amounts improperly paid, and annually report improper payment estimates and actions to reduce them.

For example, the Budget of the U.S. Government for Fiscal Year 2008 includes legislative reforms related to the Department of the Treasury's Earned Income Tax Credit (EITC) and Child Tax Credit programs, which are intended to clarify the uniform definition of child, simplify the EITC eligibility rules, and reduce the computation complexity of the refundable Child Tax Credit. According to the Office of Management and Budget (OMB), if enacted, the proposal would save \$392 million in the first year and \$6.5 billion over 10 years.⁶ We have raised similar issues regarding the complexity of the EITC program in previous reports and testimonies⁷ and since 1995, have designated the EITC program as a high-risk area. In our January 2007 high-risk series update,⁸ we reported that the IRS and the Congress will need to

⁴GAO, *Expedited Assistance for Victims of Hurricanes Katrina and Rita: FEMA's Control Weaknesses Exposed the Government to Significant Fraud and Abuse*, GAO-06-655 (Washington, D.C.: June 16, 2006).

⁵GAO, *Strategies to Manage Improper Payments: Learning From Public and Private Sector Organizations*, GAO-02-69G (Washington, D.C.: October 2001).

⁶We have not independently assessed OMB's proposed legislative reforms and related projected savings included in the Budgets of the U.S. Government for Fiscal Years 2008 and 2007.

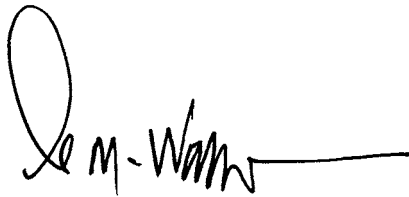
⁷GAO, *Tax Gap: Multiple Strategies, Better Compliance Data, and Long-Term Goals Are Needed to Improve Taxpayer Compliance*, GAO-06-208T (Washington, D.C.: Oct. 26, 2005), and *Tax Compliance: Better Compliance Data and Long-term Goals Would Support a More Strategic IRS Approach to Reducing the Tax Gap*, GAO-05-753 (Washington, D.C.: July 18, 2005).

⁸GAO, *High-Risk Series: An Update*, GAO-07-310 (Washington, D.C.: January 2007).

develop and IRS will need to execute multiple strategies over a sustained period, including simplifying the tax code or specific code sections.

Lastly, we reported⁹ in November 2006 that OMB's broad implementation of IPIA's general criteria to identify risk-susceptible programs limits the disclosure and transparency of governmentwide improper payments. This limitation does not further the objectives of IPIA, as programs that do not meet OMB's criteria of exceeding \$10 million and 2.5 percent of program payments are excluded from agencies' improper payment reporting. For example, one agency identified three programs with estimated improper payments exceeding \$10 million, but because the estimates did not exceed 2.5 percent of program outlays, they were not included in the governmentwide improper payments total. In our November 2006 report, we recommended that the Congress consider amending existing IPIA provisions to define specific criteria, such as a minimum dollar threshold, agencies should use to identify which programs and activities are susceptible to significant improper payments. The enclosure includes our suggested language for amending IPIA for better transparency and disclosure of improper payments reporting.

This report is available on GAO's Web site at <http://www.gao.gov>. Should you have any questions on matters discussed in this report or need additional information, please contact McCoy Williams, Director, at (202) 512-9095 or williamsml@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report are Carla Lewis, Assistant Director; Donell Ries; and Chris Rodriguez.

A handwritten signature in black ink, appearing to read "D M Walker", with a horizontal line extending to the right from the end of the signature.

David M. Walker
Comptroller General
of the United States

Enclosure

⁹GAO-07-92.

Enclosure

DRAFT BILL LANGUAGE TO AMEND
THE IMPROPER PAYMENTS INFORMATION ACT

Sec. _____. Subsection (d) of section 2 of Public Law 107-300 (31 U.S.C. § 3321 note) is amended by inserting after paragraph (3) the following new paragraph:

“(4) SIGNIFICANT.— For purposes of subsection (a), the term “significant” means annual improper payments under a program or activity that exceed \$10 million.”

DRAFT REPORT LANGUAGE

The Improper Payments Information Act of 2002 (IPIA) states that agency heads must review their agencies’ programs and activities to determine those that are susceptible to significant improper payments. The law does not currently define what programs or activities are susceptible to significant improper payments. In its implementing guidance, OMB directed that a program or activity is susceptible to significant improper payments if it meets two criteria—potential improper payments exceeding \$10 million and 2.5 percent of program payments. Therefore, both criteria must be met for an agency to subject the program to the later steps requiring the agency to estimate improper payments and address the various improper payment reporting requirements. Using OMB’s criteria could materially affect the extent to which agencies report improper payment information in their performance and accountability reports. This section would amend IPIA to define, for purposes of identifying what programs or activities are susceptible to improper payments, the term “significant” to mean “annual improper payments under a program or activity that exceed \$10 million.” This amendment will result in more complete disclosure and transparency of governmentwide improper payment reporting.

(195111)

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548