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IMPROPER PAYMENTS

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

Statement of McCoy Williams, Director
Financial Management and Assurance

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Highlights

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

IMPROPER PAYMENTS

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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.

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.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the governmentwide problem of improper payments in federal programs and activities and agencies' efforts to address key requirements of the Improper Payments Information Act of 2002 (IPIA)[1] and Section 831 of the National Defense Authorization Act for Fiscal Year 2002, commonly known as the Recovery Auditing Act.[2] Since fiscal year 2000, we have issued a number of reports and testimonies aimed at raising the level of attention given to improper payments. Our work over the past several years has demonstrated that improper payments are a long-standing, widespread, and significant problem in the federal government. IPIA has increased visibility over improper payments[3] by requiring executive agency heads, based on guidance from the Office of Management and Budget (OMB),[4] to identify programs and activities susceptible to significant improper payments,[5] estimate amounts improperly paid, and report on the amounts of improper payments and their actions to reduce them. Similarly, the Recovery Auditing Act provides an impetus for applicable agencies to systematically identify and recover contract overpayments. This act requires, among others things, that all executive branch agencies entering into contracts with a total value exceeding $500 million in a fiscal year to have cost-effective programs for identifying errors in paying contractors and for recovering amounts erroneously paid. As the steward of taxpayer dollars, 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 having

[1]Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

[2]Section 831 of the National Defense Authorization Act for Fiscal Year 2002, Pub. L. No. 107-107, div. A, title VIII, § 831, 115 Stat. 1012, 1186 (Dec. 28, 2001) (codified at 31 U.S.C. §§ 3561-3567).

[3]IPIA defines improper payments as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts.

[4]OMB Memorandum M-06-23, "Issuance of Appendix C to OMB Circular No. A-123" (Aug. 10, 2006).

[5]OMB's guidance defines significant improper payments as those in any particular program that exceed both 2.5 percent of program payments and $10 million annually.

mechanisms in place to recoup those funds when improper payments occur.

OMB has played a key role in the oversight of the governmentwide improper payments problem. In 2005, OMB established Eliminating Improper Payments as a new program-specific initiative under the President's Management Agenda (PMA). This separate PMA program initiative helps to ensure that agency managers are held accountable for meeting the goals of IPIA and are, therefore, dedicating the necessary attention and resources to meeting IPIA requirements. OMB continues its commitment to identify all improper payments governmentwide by working with agencies to establish corrective action plans to address their root causes. OMB also annually reports[6] on agencies' efforts to address IPIA and Recovery Auditing Act requirements.

Today, my testimony will focus on three key areas:

- trends in agencies' reporting under IPIA for fiscal years 2004 through 2006,
- challenges in reporting improper payment information and improving internal control, and
- agencies' reporting of recovery auditing efforts to recoup improper payments.

This testimony is based on our previous reports on agencies' efforts to implement IPIA requirements for fiscal years 2005 and 2004[7] and our current review of available fiscal year 2006 improper payment information reported by 36 of the 38 federal agencies that the Department of the Treasury (Treasury) determined to be significant to the U.S. government's consolidated financial statements. (See app. I for a list of the 38 agencies.) The remaining 2 federal government corporations have a different year-end reporting date and had not issued their annual reports as of the end of our fieldwork. We reviewed improper payment information reported in the 36 agencies' fiscal year 2006 performance and accountability reports (PAR) or annual reports. We also reviewed OMB guidance on

[6]Office of Management and Budget, *Improving the Accuracy and Integrity of Federal Payments*, (Washington, D.C.: Jan. 31, 2007).

[7]GAO, *Improper Payments: Agencies' Fiscal Year 2005 Reporting under the Improper Payments Information Act Remains Incomplete*, GAO-07-92 (Washington, D.C.: Nov. 14, 2006) and *Financial Management: Challenges in Meeting Requirements of the Improper Payments Information Act*, GAO-05-417 (Washington, D.C.: Mar. 31, 2005).

implementation of IPIA and the Recovery Auditing Act and its annual report on agencies' efforts to identify and reduce improper payments. In addition, we reviewed GAO reports and agency Office of Inspector General (OIG) management challenges reports to identify internal control weaknesses and program integrity issues for agency programs reporting improper payment estimates for fiscal year 2006. We did not independently validate the data that agencies reported in their PARs or annual reports or the data that OMB reported. However, we are providing agency-reported data as descriptive information that will inform interested parties about the magnitude of reported governmentwide improper payments and amounts recouped through recovery audits and other improper payment-related information. We believe the data to be sufficiently reliable for this purpose. We provided information on the major findings discussed in this statement to OMB. OMB provided technical comments that we have incorporated as appropriate. We conducted our work in March 2007 in accordance with generally accepted government auditing standards. Details on our scope and methodology related to fiscal year 2005 and 2004 findings can be found in our prior reports.[8]

Significant Trends in IPIA Reporting

I would now like to focus on agencies' efforts to address select IPIA reporting requirements during the first 3 years of IPIA implementation, fiscal years 2004 through 2006. Generally, agencies must perform four key steps to address the improper payments reporting requirements—(1) perform a risk assessment, (2) estimate improper payments for risk-susceptible programs and activities, (3) implement a plan to reduce improper payments for programs with estimates exceeding $10 million, and (4) annually report improper payment estimates and actions to reduce them. OMB requires the results of these steps to be reported in the agencies' PARs, in the Management Discussion and Analysis section and as a separate appendix, for each fiscal year ending on or after September 30, 2004. Today, I will touch on progress made and challenges that remain in these areas.

Risk Assessments

Our past and current reviews of agencies' reported risk assessments have raised questions regarding their adequacy. For fiscal years 2004 through 2006, we found that some agencies still had not instituted systematic methods of reviewing all programs and activities or had not identified all

[8] GAO-07-92 and GAO-05-417.

programs susceptible to significant improper payments. We also reported that certain agencies' risk assessments appear questionable. Conducting a risk assessment is an essential part of agencies' efforts to comply with IPIA. Risk assessment is a key step in helping to gain a reasonable level of assurance that programs are operating as intended and that they are achieving their expected outcomes. Done properly, it entails a comprehensive review and analysis of program operations to determine if risks exist, what those risks are, and the potential or actual effect of those risks on program operations. The information developed during a risk assessment forms the foundation or basis upon which management can determine the nature and type of corrective actions needed. It also gives management baseline information for measuring progress in reducing improper payments.

- For the first year of reporting under IPIA, we reported in March 2005,[9] that of the 29 agencies reviewed, 23 had completed risk assessments for all programs and activities for fiscal year 2004. However, for 3 of these, agencies' auditors raised noncompliance issues with the risk assessments. For example, agency auditors for the Department of Justice (DOJ) and the National Aeronautics and Space Administration (NASA) reported that the risk assessments did not consider all payment types or programs. The auditor for the Department of Homeland Security (DHS) reported that the agency did not institute a systematic method of reviewing all programs and identifying those it believed were susceptible to significant erroneous payments.

- Regarding the second year of IPIA reporting, we reported in November 2006,[10] that the same number of agencies, 23, had performed risk assessments of all of their programs and activities based on our review of 35 agency PARs or annual reports for fiscal year 2005. Similar to the first year of IPIA reporting, we noted that auditors for DOJ and DHS again raised noncompliance issues regarding the adequacy of the agencies' risk assessments. We noted other risk assessment deficiencies as well. For example, the Department of Agriculture (USDA) OIG reported[11] that the agency's risk assessments were not adequate to estimate the agency's susceptibility to improper payments

[9] GAO-05-417.

[10] GAO-07-92.

[11] Department of Agriculture, Office of Inspector General, Memorandum for the Secretary, "Management Challenges," September 2, 2005.

because the guidance from the USDA's Office of the Chief Financial Officer (OCFO) was not sufficiently prescriptive and detailed to translate into meaningful results. As such, the OIG recommended that the USDA OCFO strengthen guidance over its IPIA risk assessments to provide reasonable assurance that the requirements of the act are met. Further, the OIG stated that USDA should identify risk factors that are discrete to the program being assessed and consider information from all sources, such as audit reports.

- For fiscal year 2006, the third year of IPIA reporting, we found that 30 of the 36 agencies had reported performing some type of assessment to identify programs and activities susceptible to significant improper payments. The remaining 6 agencies either did not report improper payments information in their PARs or annual reports, or did not report assessing for risk of improper payments for all of their programs and activities. Of the 30, 18 agencies reported reviewing all programs and activities as part of the risk assessment process, while the remaining 12 agencies provided enough details that indicated some level of review was performed. For example, 1 agency reported that it had evaluated its major programs based on its developed risk criteria. Although the major programs made up a significant portion of the agency's outlays, the agency did not report that it had assessed the remaining programs and activities. We also found instances where an agency's description of the risk assessment performed contradicted its assertion that all programs and activities had been reviewed. For example, 1 agency reported in its PAR that it had assessed all programs and activities, but also reported in the same PAR that assessments for two activities had not been conducted. Another agency reported that it had assessed all of its payment programs, but later stated in its PAR that its risk assessment only covered certain types of programs.

Similar to the previous years, agency auditors continued to find inadequacies in agencies' risk assessments for fiscal year 2006. The DHS auditor reported that the agency did not perform a risk assessment for all programs and activities. Further, the NASA auditor reported that the agency had potentially violated certain requirements of IPIA as NASA had been unable to provide the auditor with sufficient documentation to support performance of an annual review of all programs and activities that the agency administers.

Other agencies reported improving and refining their risk assessment methodologies for fiscal year 2006. For example, USDA's Farm Service Agency reported that it made improvements to its risk assessments and as a result, four additional programs were determined to be susceptible to significant improper payments. Two other agencies reported redefining their programs to conduct their risk assessments. DOJ reported that it addressed its noncompliance with IPIA by performing risk assessments in its U.S. Marshals Service component. Other agencies identified plans for improving future risk assessments. For example, the Office of Personnel Management (OPM) reported that it will assess in fiscal year 2007 whether any agency payment streams, other than its former OMB Circular No. A-11 programs,[12] are susceptible to significant improper payments. The Department of Defense reported that it is developing a program to review its intergovernmental payments and payments for afloat and deployed forces. NASA reported that it plans to perform a risk assessment of the agency's commercial and noncommercial disbursement activities.

Finally, we noted that the number of agencies conducting risk assessments may decrease in future reporting, because OMB's revised IPIA implementing guidance allows agencies to perform risk assessments every 3 years for those agency programs not deemed susceptible to significant improper payments. Prior to issuing its revised implementing guidance, OMB discussed the proposed changes with us. We advised OMB that the provision to perform risk assessments every 3 years for those programs not deemed risk-susceptible was inconsistent with the IPIA requirement for agencies to review all programs and activities annually. In its fiscal year 2006 PAR, the General Services Administration (GSA) reported that because it does not have any programs or activities susceptible to significant improper payments, GSA will perform the next risk assessment in fiscal year 2008. Additionally, several programs included in OMB's former Circular No. A-11, reported that OMB had granted them a waiver from improper payments reporting because they did not have programs susceptible to significant improper payments. These programs included the Environmental Protection Agency's Clean and Drinking Water State Revolving Funds, the National Science Foundation's Research and Education Grants and Cooperative Agreements, and the Department of Veterans Affairs (VA) Insurance programs. OMB's previous implementing guidance required agencies to annually estimate improper payments for

[12]Prior to the governmentwide IPIA reporting requirements beginning with fiscal year 2004, former section 57 of OMB Circular No. A-11 required certain agencies to submit similar information, including estimated improper payment target rates, target rates for future reductions in these payments, the types and causes of these payments, and variances from targets and goals established. In addition, these agencies were to provide a description and assessment of the current methods for measuring the rate of improper payments and the quality of data resulting from these methods.

their programs that were included in former Circular No. A-11, regardless of amount.

Improper Payment Dollar and Error Rate Estimates

Since fiscal year 2004, agencies have made progress in reporting improper payment information. For example, the number of programs reporting improper payment estimates for fiscal year 2004 totaled 41, as compared to 60 programs reporting for fiscal year 2006, a net increase of 19 programs.[13] The total improper payments dollar estimate was $45 billion in fiscal year 2004, $38 billion in fiscal year 2005, and about $42 billion[14] in fiscal year 2006. (See app. II for further details.)

We have previously testified[15] before this subcommittee regarding the decrease in the total improper payment estimate from $45 billion in fiscal year 2004 to $38 billion in fiscal year 2005. Specifically, we reported that the $7 billion decrease was primarily attributable to a decrease in the Medicare estimate that resulted from increased efforts to educate health care providers on the importance of responding to requests for medical records to perform detailed statistical reviews. Also, the Department of Health and Human Services (HHS) extended the time that providers have for responding to documentation requests from 55 days to 90 days. We further reported that these changes primarily affected HHS's processes related to its efforts to perform detailed statistical reviews for the purposes of calculating an annual improper payment estimate for the Medicare program. While this represents a refinement, it may not reflect improved accountability over program dollars given that GAO continues to designate the Medicare program as a high-risk area. Specifically, in our January 2007 report,[16] we reported that further action must be taken to refine Medicare's payment methods and collection of data used as a basis

[13]The net increase represents newly reported programs for applicable years as well as programs that may have reported in one year but not in a subsequent fiscal year.

[14]For fiscal year 2006, OMB reported total improper payments of about $41 billion, a difference of $1 billion. The difference is primarily attributable to OMB excluding improper payment estimates for the Tennessee Valley Authority and agency-reported improper payment estimates related to commercial or vendor payments because, according to OMB, those estimates are reported in agencies' recovery auditing amounts. Rounding differences also exist.

[15]GAO, *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).

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

for setting payment rates and address program integrity weaknesses, among others. Also, HHS's OIG continued to report the integrity of Medicare payments as a top management challenge for fiscal year 2006.

For fiscal year 2006, the total improper payment estimate increased to about $42 billion from the reported $38 billion for fiscal year 2005. The increase in improper payments was primarily attributable to 15 newly reported programs or activities totaling about $2.4 billion, and a $1.6 billion increase in USDA's Marketing Assistance Loan program due to improvements in how it measured its improper payments. In addition, several programs experienced increases in their improper payment estimates as a result of lax upfront eligibility controls to facilitate rapid benefit delivery to victims devastated by Hurricane Katrina. According to OMB, the programs most directly affected included the Federal Emergency Management Agency's Individuals and Households program (IHP), Department of Labor's (Labor) Disaster Unemployment Insurance (UI) program, and the Small Business Administration's Disaster Assistance Loan program. For example, Labor identified more than $100 million in improper payments related to Hurricane Katrina for the Disaster UI program. To respond to the challenges of the Gulf Coast hurricanes, on August 29, 2006, the President signed Executive Order 13411, Improving Assistance for Disaster Victims, which established a task force on disaster coordination responsible for recommending specific actions to improve the delivery of federal disaster assistance while strengthening controls designed to prevent improper payments and other forms of fraud, waste, and abuse.

Mr. Chairman, I commend agencies' efforts to decrease improper payment error rates. For example, from our review of agency programs initially reporting error rates in the first year of IPIA implementation, fiscal year 2004, we noted that of the 32 agency programs with changes in their error rates, 18 program error rates, or 56 percent, had declined when compared to fiscal year 2006. However, it should be noted that in this still-early stage of IPIA implementation, a decrease in the reported error rate may not signal improved accountability just as an increase may not necessarily indicate a greater number of control weaknesses. In some cases, these fluctuations may be attributed to changes in the estimating methodology used. For example, USDA's Marketing Assistance Loan program did not report an estimate in fiscal year 2004 and reported a small estimate for fiscal year 2005. However, with improvements in how it measures improper payments, this program estimated an error rate of 20.3 percent for fiscal year 2006. The Marketing Assistance Loan program is now in a greatly improved position to identify the root causes of these errors and ultimately improve the integrity of its payments—the primary goal of IPIA reporting.

Table 1 highlights improper payment error rates for the 8 major programs that accounted for 86 percent of the $42 billion total improper payment estimate for fiscal year 2006.

Table 1: Reported Improper Payment Error Rates for Major Programs for Fiscal Years 2004 through 2006

		FY 2004		FY 2005		FY 2006	
Agency	**Program**	**Error rate (percent)**	**Estimate (dollars in billions)**	**Error rate (percent)**	**Estimate (dollars in billions)**	**Error rate (percent)**	**Estimate (dollars in billions)**
Health and Human Services	Medicare (Fee-for-Service component)	10.1	$21.7	5.2	$12.1	4.4	$10.8
Department of the Treasury	Earned Income Tax Credit	24.5	9.7	25.5	10.5	25.5	10.7
Department of Labor	Unemployment Insurance	10.3	3.9	10.1	3.3	10.7	3.4
Social Security Administration	Old Age, Survivors, and Disability Insurance	0.3	1.7	0.7	3.7	0.6	3.3
Social Security Administration	Supplemental Security Income Program	7.3	2.6	7.7	2.9	7.8	3.0
Department of Agriculture	Food Stamp Program	6.6	1.6	5.9	1.4	5.8	1.6
Department of Agriculture	Marketing Assistance Loan Program	0.0	0.0	0.7	0.5	20.3	1.6
Housing and Urban Development	Public Housing/Rental Assistance	6.9	1.7	5.6	1.5	5.4	1.5
	Total		**$42.9**		**$35.9**		**$35.9**
	Estimate for all programs		45.4		38.4		41.6
	Major programs as a percent of total for all programs		94 percent		93 percent		86 percent

Sources: GAO analysis of agencies' fiscal years 2004 to 2006 PARs and OMB.

Noncompliance Issues with IPIA Continue

Although they are not specifically required to do so by the act, some agency auditors have reported on noncompliance issues related to implementation of IPIA since the first year of IPIA reporting. For example, for fiscal years 2004 and 2005, we reported[17] that agency auditors had

[17] GAO-05-417 and GAO-07-92, respectively.

identified instances of noncompliance, such as the lack of a systematic method for reviewing all programs and risk assessments that did not consider all payment types or programs. For fiscal year 2006, agency auditors reported instances of noncompliance such as an agency still being in its early stages of IPIA implementation or not yet having reported for all risk-susceptible programs.

We found that the level of noncompliance and types of issues raised varied over the first 3 years of IPIA reporting. From our review of the agency auditors' description of the noncompliance, we classified the findings into three categories—full noncompliance, partial noncompliance, and potential noncompliance. We noted that agency auditors reported problems related to agencies' risk assessments, the definition of programs for IPIA purposes, sampling methodologies, lack of reporting for all risk-susceptible programs, and supporting documentation, as shown in table 2. Fully addressing these matters should lead to improved reporting under IPIA. Although IPIA does not include a separate reporting requirement for auditors to assess agencies' compliance, we noted that those that included this assessment provided a valuable independent validation of agencies' efforts to implement the act.

Table 2: Noncompliance Issues Reported by Some Agency Auditors for Fiscal Years 2004 through 2006

Category of noncompliance	Fiscal year 2004	Fiscal year 2005	Fiscal year 2006	Type of noncompliance issue
Full noncompliance	3	2	1	Defining programs and activities, risk assessment, sampling, early stages of IPIA implementation
Partial noncompliance	1	1	4	Not estimating for all risk-susceptible programs, risk assessment, sampling
Potential noncompliance	0	0	1	Documentation does not support work reportedly performed
Total	**4**	**3**	**6**	

Source: GAO analysis.

From our analysis, we noted that four agencies[18] had reported noncompliance issues for at least 2 of the 3 IPIA reporting years. For example, agency auditors for DHS have reported noncompliance issues for

[18]The four agencies include HHS, DHS, DOJ, and NASA.

the first 3 years of IPIA reporting. As mentioned earlier in this testimony, the first 2 years of noncompliance were primarily caused by inadequate risk assessments. For fiscal year 2006, DHS auditors reported that the agency had not fully complied with IPIA due to several inadequacies related to sampling methodologies, trained staff, and monitoring of results to ensure testing was completed for all required programs. DHS auditors recommended that the agency follow OMB guidance for fiscal year 2007, including completing the necessary susceptibility assessments, testing for all material programs, and instituting sampling techniques to allow for statistical projection of improper payments testing results.

Challenges Continue in Reporting Improper Payment Information and Improving Internal Control

While showing progress, agencies' fiscal year 2006 reporting under IPIA does not yet reflect the full scope of improper payments across executive branch agencies. Major challenges remain in meeting the goals of the act and ultimately improving the integrity of payments. Specifically, some agencies have not yet reported for all risk-susceptible programs, and certain methodologies used to estimate improper payments do not result in reliable estimates. Also, we noted that management challenges related to agencies' internal control weaknesses continue to plague programs susceptible to significant improper payments.

Improper Payments Estimate Excludes Several Large Risk-Susceptible Programs

The fiscal year 2006 total improper payment estimate of about $42 billion did not include any amounts for 13 risk-susceptible programs having fiscal year 2006 outlays totaling about $329 billion. The Medicaid program represents the largest program that has not yet reported, with reported outlays of about $183 billion. OMB had specifically required 9 of these programs, including the Medicaid program to report selected improper payment information for several years before IPIA reporting requirements became effective. After passage of IPIA, OMB's implementing guidance required that these programs continue to report improper payment information under IPIA. See table 3 for more detailed information.

Table 3: Risk-Susceptible Programs That Did Not Report Improper Payment Estimates and Target Dates for Estimates

Agency/program	Fiscal year 2006 outlays (dollars in billions)	Target date for improper payment estimate	Previously required to estimate
Department of Agriculture—National School Lunch and School Breakfast Programs (previously School Programs)	$6.5	2007	X
Federal Communications Commission—High Cost Support Program	3.8	2007	
Federal Communications Commission—Universal Service Fund's Schools and Libraries	1.7	2007	
Small Business Administration—504 Certified Development Companies	4.3	2007	X
Department of Transportation—Airport Improvement Program	3.8	2007	X
Department of Transportation—Capital Investments	3.1	2007	X
Department of Transportation—Formula Grants	1.9	2007	X
Department of Health and Human Services—Child Care and Development Fund	4.9	2008[a]	X
Department of Health and Human Services—Medicaid	182.9	2008	X
Department of Health and Human Services—State Children's Insurance Program	5.8	2008	X
Department of Health and Human Services—Temporary Assistance for Needy Families	17.4	2008[a]	X
Department of Health and Human Services—Medicare Advantage	55.4	Did not report a target date	
Department of Health and Human Services—Medicare Prescription Drug Benefit	37.4	Did not report a target date	
Total	**$328.9**		**9**

Sources: OMB and cited agencies' fiscal year 2006 PARs.

[a]Although not reported in HHS's fiscal year 2006 PAR, according to OMB, both the Child Care and Development Fund and Temporary Assistance for Needy Families programs anticipate reporting a component error measurement in HHS's fiscal year 2008 PAR.

Of these 13 programs, 11 reported that they would be able to estimate and report on improper payments in the next 2 fiscal years, but could not do so for fiscal year 2006. The remaining 2 programs were silent about when they would report estimates in the future. As a result, improper payment reporting of these programs susceptible to risk remain unknown.

OMB reported that some of the agencies were unable to determine the rate or amount of improper payments because of measurement challenges or time and resource constraints, which OMB expects to be resolved in future reporting years. For example, since fiscal year 2002, HHS has conducted pilots at the state level to further its progress toward reporting a national improper payments estimate for its Medicaid program. Each state is responsible for designing and overseeing its own Medicaid program within the federal government structure. This type of program structure presents challenges for implementing a methodology to estimate improper payments as HHS must work with states to obtain applicable documentation used in the calculation. An additional challenge that HHS and other agencies with state-administered programs say they face is the ability to hold states accountable for meeting targets to reduce and recover improper payments in the absence of specific statutory authority. In April 2006, we reported[19] on the need for federal and state coordination to report national improper payment estimates on federal programs as state-administered programs and other nonfederal entities receive over $400 billion annually in federal funds. Thus, federal agencies and states share a responsibility for the prudent use of these funds.

Certain Methodologies Used to Estimate Improper Payments Do Not Result in Accurate Estimates

We have previously noted that agencies employed different sampling methodologies to estimate improper payments, including statistical sampling, nonstatistical sampling, or a combination of the two. OMB's implementing guidance requires that agencies generally use a statistical sample to estimate improper payments. Agencies may also use an alternative sampling approach provided they obtain OMB approval prior to implementation. The advantage of using statistical sampling is that sample results can be generalized to the entire population from which the sample was taken. Based on our review of fiscal year 2006 reporting, we found seven agencies that did not use statistical sampling to estimate improper payments for nine programs totaling about $202 million, with program

[19]GAO, *Improper Payments: Federal and State Coordination Needed to Report National Improper Payment Estimates on Federal Programs*, GAO-06-347 (Washington, D.C. Apr. 14, 2006).

outlays exceeding $88 billion. Given that total outlays for these nine risk-susceptible programs exceeded $88 billion for fiscal year 2006, the improper payment estimate for these programs would likely have been much greater had statistically valid methods been used.

For example, Labor analyzed fiscal year 2004 audits done under the Single Audit Act,[20] as amended, to identify questioned costs for its Workforce Investment Act[21] program, which, in turn, were used as a proxy for reporting its improper payment estimate. Specifically, the improper payment rate was determined by calculating the projected questioned costs and dividing this total amount by the corresponding outlays. Using this methodology, Labor reported a $6.4 million improper payment estimate for fiscal year 2006. We do not believe this is a reasonable proxy for improper payment levels because single audits, by themselves, may lack the level of detail necessary for achieving IPIA compliance. Specifically, single audits generally focus on the largest dollars in an auditee's portfolio. Thus, all programs identified as susceptible to improper payments at the federal level may not receive extensive coverage under a single audit. Consequently, both the depth and level of detail of single audit results are, generally, insufficient to identify improper payments, estimate improper payments, or both. We noted that Labor's OIG reported the use of single audits as a major management challenge because serious deficiencies in single audits, including inadequate sampling methodologies have been reported, thus making them unreliable for purposes of estimating improper payments.

We also found that five agencies used a combination of statistical and nonstatistical sampling methods to estimate improper payments totaling about $11.6 billion for ten programs. For example, VA reported that improper payment estimates for its Compensation and Pension programs are based on statistical sampling of its quality assurance program together with actual amounts of debt incurred that are referred to the VA Debt Management Center. In another example, the Railroad Retirement Board (RRB) reported that improper payment estimates for its Retirement and

[20] 31 U.S.C. §§ 7501-7507. Under the Single Audit Act, as amended, and implementing guidance, independent auditors audit state and local governments and nonprofit organizations that expend $500,000 or more in federal awards to assess, among other things, compliance with laws, regulations, and the provisions of contracts or grant agreements material to the entities' major federal programs.

[21] Pub. L. No. 105-220, 112 Stat. 936 (Aug. 7, 1998).

Survivors Benefits program and Railroad Unemployment Insurance Benefits program were based on a statistical sample of railroad retirement awards and unemployment and sickness insurance claims as well as special studies and audits that were not entirely statistically based. In its fiscal year 2006 PAR, RRB reported that in May 2005, its general counsel issued a legal opinion that since the levels of improper payments did not exceed OMB's designated thresholds—exceeding $10 million and 2.5 percent of program payments—the agency was not required to conduct statistical sampling. We noted that both of these programs were required to report improper payment information for several years before IPIA reporting requirements became effective. After passage of IPIA, OMB's implementing guidance required that these programs continue to report improper payment information under IPIA, including using statistical sampling to estimate improper payments.

In addition, we noted instances where agencies estimated improper payments for only one component of the risk-susceptible program. For example, HHS's Medicare program is the largest of the programs constituting the total improper payment estimate, with an estimate of $10.8 billion for fiscal year 2006. However, this estimate represents payment errors only for its fee-for-service program component. HHS has not yet begun to estimate improper payments for its managed care component (also known as Medicare Advantage), with outlays totaling about $55 billion, or 14 percent of Medicare program outlays. HHS's auditor, an independent public accounting firm that audited its financial statements for fiscal year 2006, identified Medicare's managed care benefits payment cycle as a reportable condition in its report on internal controls. The auditor found that HHS lacks a comprehensive control environment in which the risk of inaccurate payments is not sufficiently mitigated. Specifically, HHS had inadequate procedures to review and process managed care payments, lacked documentation and procedures to determine eligibility of new providers, and provided inadequate oversight of managed care organizations. In its fiscal year 2006 PAR, HHS reported that a methodology to estimate improper payments for the Medicare Advantage program was in the initial stage of development. During fiscal year 2007, HHS plans to perform a comprehensive risk assessment for the Medicare Advantage program to determine potential areas vulnerable to payment errors. HHS anticipates reporting on the measurement project and select findings in its fiscal year 2008 PAR. However, HHS has not yet provided a target date for reporting an improper payment estimate for its Medicare Advantage program.

Improved Internal Control Is Key to Resolving Improper Payments

Agency OIGs reported management challenges in the annual PARs related to agencies' internal control weaknesses that continue to plague programs susceptible to significant improper payments. In accordance with OMB Circular No. A-136, OIGs are required to highlight issues that the OIGs consider to be the most serious management and performance challenges facing agencies. Management challenges involving internal control have a direct effect on program integrity and improper payment issues, and thus a review of the OIGs' statements on management challenges can be instructive in this regard. Generally, improper payments result from a lack of or an inadequate system of internal control, but some result from program design issues.

Internal control is a major part of managing an organization. It comprises the plans, methods, and procedures used to meet missions, goals, and objectives and supports performance-based management. Internal control also serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud. Our *Standards for Internal Control in the Federal Government* provide a road map for entities to establish control for all aspects of their operations and a basis against which entities' control structures can be evaluated.[22] Also, our executive guide on strategies to manage improper payments focuses on internal control standards as they relate to reducing improper payments.[23]

We found that over half of the programs reporting improper payment estimates also had reported management challenges that could increase the risk of improper payments, including challenges related to internal controls. For example, in the Department of Education's (Education) fiscal year 2006 PAR, the Education OIG reported that recent audits, inspections, and investigations continue to uncover problems with program control and oversight of program participants, placing billions of taxpayer dollars at risk of waste, fraud, abuse, and noncompliance. The OIG concluded that only by improving effective oversight of its operations and demanding accountability by its managers, staff, contractors, and grantees can the agency be an effective steward of the billions of taxpayer dollars supporting its programs and operations. Education's OIG also reported that identifying and correcting improper payments remains a

[22] GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

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

challenge for the agency due to ineffective oversight and monitoring of its policies, programs, and participants.

Another example involved an agency's systems used to detect fraudulent activity. Specifically, Treasury's OIG reported that some tax credits, such as the Earned Income Tax Credit, provide opportunities for abuse in income tax claims. In past years, the Internal Revenue Service (IRS) used its Web-based Electronic Fraud Detection System (EFDS) to search for signs of fraud at the time that tax returns are filed to help eliminate the issuing of questionable refunds. For its 2005 processing year,[24] IRS stopped over $412 million in improper payments. However, IRS was unable to utilize EFDS for the 2006 processing year[25] because the contractor it had hired to update the fraud detection program could not produce a working program within the established timeframe. Because IRS believed that the contractor would deliver the updated program, it had not developed a contingency plan nor taken any action to return to the old system. As a result, the Treasury OIG reported that more than $300 million in fraudulent refunds may have been issued in 2006. We identified this issue as a material weakness during our audit of IRS's fiscal years 2005 and 2006 financial statements.[26]

Agencies' Reporting of Recovery Auditing Information

Section 831 of the National Defense Authorization Act for Fiscal Year 2002 provides an impetus for applicable agencies to systematically identify and recover contract overpayments. The act requires that agencies that enter into contracts with a total value in excess of $500 million in a fiscal year carry out a cost-effective program for identifying and recovering amounts erroneously paid to contractors. The law authorizes federal agencies to retain recovered funds to cover in-house administrative costs as well as to pay contractors, such as collection agencies. Any residual recoveries, net of these program costs, shall be credited back to the original appropriation from which the improper payment was made, subject to restrictions as described in the legislation.

[24] A processing year is the calendar year in which tax returns and related data are processed.

[25] During processing year 2006, IRS processed primarily 2005 tax returns.

[26] GAO, *Financial Audit: IRS's Fiscal Years 2006 and 2005 Financial Statements*, GAO-07-136 (Washington, D.C.: Nov. 9, 2006).

Recovery auditing is a method that agencies can use to recoup detected improper payments. Recovery auditing is a detective control to help determine whether contractor costs were proper. Specifically, it focuses on the identification of erroneous invoices, discounts offered but not received, improper late penalty payments, incorrect shipping costs, and multiple payments for single invoices. Recovery auditing can be conducted in-house or contracted out to recovery audit firms. The techniques used in recovery auditing offer the opportunity for identifying weaknesses in agency internal controls, which can be modified or upgraded to be more effective in preventing improper payments before they occur for subsequent contract outlays.

I would like to emphasize that effective internal control calls for a sound, ongoing invoice review and approval process as the first line of defense in preventing unallowable contract costs. Given the large volume and complexity of federal payments and historically low recovery rates for certain programs, it is much more efficient and effective to pay bills and provide benefits properly in the first place. Prevention is always preferred to detection and collection. Aside from minimizing overpayments, preventing improper payments increases public confidence in the administration of benefit programs and avoids the difficulties associated with the "pay and chase" aspects of recovering improper payments. Without strong preventive controls, agencies' internal control activities over payments to contractors will not be effective in reducing the risk of improper payments.

Beginning with fiscal year 2004, OMB required that applicable agencies publicly report on their recovery auditing efforts as part of their PAR reporting of improper payment information. Agencies are required to discuss any contract types excluded from review and justification for doing so. Agencies are also required to report, in table format, various amounts related to contracts subject to review and actually reviewed, contract amounts identified for recovery and actually recovered, and prior year amounts.

From fiscal year 2004 to 2006, we noted that the number of agencies reporting recovery auditing information and the dollar amounts identified for recovery and actually recovered had increased, as shown in table 4.

Table 4: Improper Payment Amounts Identified and Recovered for Fiscal Years 2004 to 2006

		Fiscal year 2004		Fiscal year 2005		Fiscal year 2006	
	Department or agency	**Agency-reported amount identified for recovery**	**Agency-reported amount recovered**	**Agency-reported amount identified for recovery**	**Agency-reported amount recovered**	**Agency-reported amount identified for recovery**	**Agency-reported amount recovered**
1	Agency for International Development	did not report	did not report	$5,900,000	$5,782,000	$17,100,000	$17,090,000
2	Department of Agriculture	$2,000	$2,000	333,000	189,000	379,000	538,000[a]
3	Department of Commerce	did not report	did not report	96,354	84,551	96,000	96,000
4	Department of Defense	6,300,000	6,300,000	473,000,000	418,500,000	195,300,000	137,900,000
5	Department of Education	269,000	79,000	274,367	112,506	did not report	did not report
6	Department of Energy	6,000,000	6,000,000	10,600,000	9,500,000	11,900,000	10,300,000
7	Environmental Protection Agency	did not report	did not report	130,000	130,000	1,102,000	0[b]
8	General Services Administration	14,409,000	11,117,000	26,638,654	8,317,187	46,721,742	45,917,920
9	Department of Health and Human Services	did not report	did not report	2,100,000	14,430	1,600,000[c]	40,000[c]
10	Department of Homeland Security	did not report	did not report	2,191,000	1,207,000	502,000,000[c]	6,016,000[c]
11	Department of Housing and Urban Development	227,000	40,000	reported not cost beneficial	reported not cost beneficial	reported not cost beneficial	reported not cost beneficial
12	Department of the Interior	231,000	231,000	1,548,620	195,479	4,407,345	505,743
13	Department of Justice	973,000	780,000	1,044,320	765,086	1,851,709	1,734,421
14	Department of Labor	did not report	did not report	reported not cost beneficial	reported not cost beneficial	reported not cost beneficial	reported not cost beneficial
15	National Aeronautics and Space Administration	did not report	did not report	617,442	617,442	256,255	139,420
16	Social Security Administration	5,000	5,000	317,000	50,000	178,000	178,000
17	Department of State	did not report	did not report	5,350,000	5,190,000	2,397,200	2,276,700
18	Tennessee Valley Authority	did not report	did not report	909,573	443,763	6,793,581[d]	1,202,651

	Department or agency	Fiscal year 2004 Agency-reported amount identified for recovery	Fiscal year 2004 Agency-reported amount recovered	Fiscal year 2005 Agency-reported amount identified for recovery	Fiscal year 2005 Agency-reported amount recovered	Fiscal year 2006 Agency-reported amount identified for recovery	Fiscal year 2006 Agency-reported amount recovered
19	Department of Transportation	216,000	216,000	2,663,984	2,663,984	6,450,993	45,109
20	Department of the Treasury	855,000	669,000	428,977	364,680	2,305,424	1,442,708
21	Department of Veterans Affairs	29,500,000	27,300,000	23,001,137	12,957,264	39,155,454	30,378,423
	Total	**$58,987,000**	**$52,739,000**	**$557,144,428**	**$467,084,372**	**$839,994,703**	**$255,801,095**

Sources: OMB and agencies' fiscal year 2005 and 2006 PARs.

[a]According to USDA, amount recovered in fiscal year 2006 include some recoveries identified in fiscal year 2005.

[b]Agency did not report an amount recovered in its PAR. According to OMB, only four improper payments were identified and dollars were not statistically significant.

[c]We obtained this amount from OMB.

[d]This amount represents the agency-reported amount of $1,208,498 and an additional $5,585,083 identified from Tennessee Valley Authority's (TVA) OIG contract compliance audits, which is also included in the annual report. TVA noted that there is a partial overlap between these two amounts, but could not identify the overlapped amount.

We are pleased that progress has been made over the past 3 fiscal years to identify amounts for recovery and those amounts actually recovered. We also noted that the rate of recovery of contract overpayments for fiscal year 2006, about 30 percent, had substantially decreased from the prior year reported recovery rate of 84 percent. In our November 2006 report,[27] we raised questions regarding the overall high recovery rate of 84 percent and found discrepancies, such as the contract costs identified for recovery were considerably lower than the corresponding OIG amount identified from that year's audit reviews. We determined that the discrepancies significantly decreased the overall recovery rate from 84 percent to 22 percent. Although we have not performed a detailed review of the agencies' recovery rates for fiscal year 2006, the reported overall recovery rate of 30 percent may provide a more realistic view of agencies' recovery audit efforts.

[27]GAO-07-92.

From our review, we noted that 12 agencies reported recovering about $53 million for fiscal year 2004 compared to 18 agencies that reported recovering about $256 million for fiscal year 2006. In addition to the 18 agencies, we found that 3 agencies—Education, the Department of Housing and Urban Development (HUD), and Labor—did not report recovery auditing information for fiscal year 2006. Education reported that it reviewed all of its vendor payments from fiscal years 1998 to 2005 and found that potential recoveries were minimal. During fiscal year 2007, Education plans to review fiscal year 2006 contract payments. Education also noted that its purchase card and travel card programs are subject to monthly reviews and reconciliations to identify potential misuse or abuse. HUD and Labor reported that based on their recovery audit results, a recovery auditing program was not cost-beneficial or necessary, similar to what they reported for fiscal year 2005. Specifically, in fiscal year 2006, HUD reported that its recovery audit contractor had determined that procedures and systems in place provide strong controls for processing contract payments. Labor reported that from its statistical sample of 50 transactions, no improper payments were found, and therefore recovery audit efforts were not necessary. In addition, we noted that of the 18 agencies reporting for fiscal year 2006, 3 agencies had conducted in-house recovery audits, 8 agencies reported they contracted out their recovery audit services, another 6 agencies reported using both in-house and recovery audit contractors to perform recovery auditing, and the remaining 1 agency was silent.

Concluding Observations

In closing, we recognize that measuring improper payments and designing and implementing actions to reduce them are not simple tasks and will not be easily accomplished. Further, while internal control should be maintained as the front-line defense against improper payments, recovery auditing holds promise as a cost-effective means of identifying contractor overpayments.

Given today's budgetary pressures and the American public's increasing demands for accountability over taxpayer funds, oversight hearings such as this one today and the continuing leadership of OMB under the PMA, help keep agencies focused on the goals of IPIA and being accountable for results. Preventing, identifying, and recovering improper payments in that order are what is needed across government. Fulfilling the requirements of IPIA will require sustained attention to implementation and oversight to monitor whether desired results are being achieved.

Mr. Chairman, this concludes my statement. I would be pleased to respond to any questions that you or other members of the subcommittee may have.

Contact and Acknowledgments

For more information regarding this testimony, please contact McCoy Williams, Director, Financial Management and Assurance, at (202) 512-9095 or by e-mail at williamsm1@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Individuals making key contributions to this testimony included Carla Lewis, Assistant Director; Francine DelVecchio; Christina Quattrociocchi; Heather Rasmussen; Donell Ries; and Viny Talwar.

Appendix I: Agencies and Related Programs Included in Our Review of Fiscal Year 2006 Performance and Accountability Reports and Annual Reports

	Department or agency		Program or activity
1	Agency for International Development	1	Cash Transfers
		2	Cooperative Agreements, Grants, and Contracts
2	Department of Agriculture	3	Child and Adult Care Food Program
		4	Conservation Reserve Program
		5	Direct and Counter-Cyclical Payments
		6	Disaster Programs
		7	Farm Security and Rural Investment
		8	Federal Crop Insurance Corporation
		9	Food Stamp Program
		10	Loan Deficiency Payments
		11	Marketing Assistance Loan Program
		12	Milk Income Loss Contract Program
		13	National School Lunch and School Breakfast Programs (previously School Programs)
		14	Noninsured Assistance Program
		15	Rental Assistance Program
		16	Wildland Fire Suppression Management
		17	Women, Infants, and Children
3	Department of Commerce	18	All programs and activities
4	Department of Defense	19	Civilian Pay
		20	Commercial Pay
		21	Military Health Benefits
		22	Military Pay
		23	Military Retirement Fund
		24	Travel Pay
5	Department of Education	25	Student Financial Assistance—Federal Family Education Loan
		26	Student Financial Assistance—Pell Grants
		27	Title I
6	Department of Energy	28	Payment programs
7	Environmental Protection Agency	29	Clean Water State Revolving Funds
		30	Drinking Water State Revolving Funds

	Department or agency		Program or activity
8	Export-Import Bank of the United States	31	All programs and activities
9	Farm Credit System Insurance Corporation[a]	32	All programs and activities
10	Federal Communications Commission	33	High Cost Support Program
		34	Universal Service Fund's Schools and Libraries
11	Federal Deposit Insurance Corporation	35	All programs and activities
12	Federal Trade Commission	36	All programs and activities
13	General Services Administration	37	All programs and activities
14	Department of Health and Human Services	38	Child Care and Development Fund
		39	Foster Care—Title IV-E
		40	Head Start
		41	Medicaid
		42	Medicare Advantage
		43	Medicare Fee-for-Service
		44	Medicare Prescription Drug Benefit
		45	State Children's Insurance Program
		46	Temporary Assistance for Needy Families
15	Department of Homeland Security	47	Individuals and Households Program
		48	Vendor Payments
16	Department of Housing and Urban Development	49	Community Development Block Grant
		50	Federal Housing Administration's Single Family Acquired Asset Management System
		51	Low Income Public Housing
		52	Public Housing Capital Fund
		53	Section 8—Project Based
		54	Section 8—Tenant Based
17	Department of the Interior	55	All programs and activities
18	Department of Justice	56	All programs and activities
19	Department of Labor	57	Federal Employees' Compensation Act
		58	Unemployment Insurance
		59	Workforce Investment Act
20	National Aeronautics and Space Administration	60	All programs and activities

	Department or agency		Program or activity
21	National Archives and Records Administration	61	All programs and activities
22	National Credit Union Administration[a]	62	All programs and activities
23	National Science Foundation	63	Research and Education Grants and Cooperative Agreements
24	National Transportation Safety Board	64	All programs and activities
25	Nuclear Regulatory Commission	65	All programs and activities
26	Office of Personnel Management	66	Federal Employees Group Life Insurance
		67	Federal Employees Health Benefits Program
		68	Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)
27	Pension Benefit Guaranty Corporation	69	All programs and activities
28	U.S. Postal Service	70	All programs and activities
29	Railroad Retirement Board	71	Railroad Unemployment Insurance Benefits
		72	Retirement and Survivors Benefits
30	Securities and Exchange Commission	73	All programs and activities
31	Small Business Administration	74	504 Certified Development Companies
		75	7(a) Business Loan Program
		76	Disaster Assistance
		77	Small Business Investment Companies
32	Smithsonian Institution	78	All programs and activities
33	Social Security Administration	79	Old Age and Survivors' Insurance
		80	Disability Insurance
		81	Supplemental Security Income Program
34	Department of State	82	International Information Program—U.S. Speaker Specialist Program
		83	International Narcotic and Law Enforcement Affairs—Narcotics Program
		84	Structures and Equipment
		85	Vendor payments
35	Tennessee Valley Authority	86	Payment programs
36	Department of Transportation	87	Airport Improvement Program
		88	Federal Transit—Capital Investment Grants

	Department or agency		Program or activity
		89	Federal Transit—Formula Grants
		90	Highway Planning and Construction
37	Department of the Treasury	91	Earned Income Tax Credit
38	Department of Veterans Affairs	92	Compensation
		93	Dependency and Indemnity Compensation
		94	Education programs
		95	Insurance programs
		96	Loan Guaranty
		97	Pension
		98	Vocational Rehabilitation

Sources: GAO's analysis of cited agencies' fiscal year 2006 performance and accountability reports and annual reports.

[a]Agency PAR or annual report was not available as of the end of fieldwork.

Appendix II: Improper Payment Estimates Reported in Agency Fiscal Year 2005 and 2006 Performance and Accountability Reports or Annual Reports

	Department or agency		Program or activity	2005 Total estimate (dollars in millions)	2005 Error rate (percent)	2006 Total estimate (dollars in millions)	2006 Error rate (percent)
1	Agency for International Development	1	Cash Transfers	0.9[a]	0.1[a]	7.0	0.8
		2	Cooperative Agreements, Grants, and Contracts	0.2[a]	0.0[a, b]	15.1	0.2
2	Department of Agriculture	3	Child and Adult Care Food Program	0.0[c]	0.0[c]	16.0	1.8
		4	Conservation Reserve Program	0.0[c]	0.0[c]	64.0	3.5
		5	Direct and Counter-Cyclical Payments	0.0[c]	0.0[c]	424.0	5.0
		6	Disaster Programs	0.0[c]	0.0[c]	291.0	12.3
		7	Farm Security and Rural Investment	16.0	1.6	3.0	0.2
		8	Federal Crop Insurance Corporation	28.0	0.9	62.0	1.9
		9	Food Stamp Program	1,432.0	5.9	1,645.0	5.8
		10	Loan Deficiency Payments	5.0	1.0	443.0	9.3
		11	Marketing Assistance Loan Program (previously Commodity Loan Programs)	45.0	0.7	1,611.0	20.3
		12	Milk Income Loss Contract Program	0.2	0.1	0.0[c]	0.0[c]
		13	National School Lunch and School Breakfast Programs (previously School Programs)[d]	0.0	0.0	0.0	0.0
		14	Noninsured Assistance Program	0.0[c]	0.0[c]	25.0	22.9
		15	Rental Assistance Program	27.0	3.2	22.0	3.5
		16	Wildland Fire Suppression Management	18.0[a]	3.7[a]	7.0	2.5
		17	Women, Infants, and Children	0.0[c]	0.0[c]	21.0	0.6
3	Department of Commerce	18	All programs and activities[e]	0.0	0.0	0.0	0.0
4	Department of Defense	19	Civilian Pay	0.0[c]	0.0[c]	62.8	0.1
		20	Commercial Pay	0.0[c]	0.0[c]	550.0	0.2
		21	Military Health Benefits	87.8[a]	1.2[a]	140.0	2.0
		22	Military Pay	432.0	0.6	65.9	0.1
		23	Military Retirement Fund	49.3	0.1	48.8	0.1

	Department or agency		Program or activity	2005 Total estimate (dollars in millions)	2005 Error rate (percent)	2006 Total estimate (dollars in millions)	2006 Error rate (percent)
		24	Travel Pay	0.0[c]	0.0[c]	8.0	1.0
5	Department of Education	25	Student Financial Assistance—Federal Family Education Loan	190.0[a]	2.2[a]	401.0	2.2
		26	Student Financial Assistance—Pell Grants	444.0[a]	3.5[a]	422.0	3.5
		27	Title I	149.0	1.2	25.2	0.2
6	Department of Energy	28	Payment programs	14.5	0.1	18.4	0.1
7	Environmental Protection Agency	29	Clean Water State Revolving Funds	3.0[a]	0.1[a]	3.5	0.2
		30	Drinking Water State Revolving Funds	0.0[f]	0.0[f]	0.0[f]	0.0[f]
8	Export-Import Bank of the United States[g]	31	All programs and activities	0.0	0.0	0.0	0.0
9	Farm Credit System Insurance Corporation	32	All programs and activities	0.0[g]	0.0[g]	0.0[h]	0.0[h]
10	Federal Communications Commission	33	High Cost Support Program[d]	0.0	0.0	0.0	0.0
		34	Universal Service Fund's Schools and Libraries[d]	0.0	0.0	0.0	0.0
11	Federal Deposit Insurance Corporation[g]	35	All programs and activities	0.0	0.0	0.0	0.0
12	Federal Trade Commission	36	All programs and activities	0.0[i]	0.0[i]	0.0[e]	0.0[e]
13	General Services Administration	37	All programs and activities[e]	0.0	0.0	0.0	0.0
14	Department of Health and Human Services	38	Child Care and Development Fund[d]	0.0	0.0	0.0	0.0
		39	Foster Care—Title IV-E	152.0[a]	8.6[a]	134.0	7.7
		40	Head Start	109.0[a]	1.6	210.0	3.1
		41	Medicaid[d]	0.0	0.0	0.0	0.0
		42	Medicare Advantage[d]	0.0	0.0	0.0	0.0
		43	Medicare Fee-for-Service	12,100.0	5.2	10,800.0	4.4
		44	Medicare Prescription Drug Benefit[d]	0.0	0.0	0.0	0.0
		45	State Children's Insurance Program[d]	0.0	0.0	0.0	0.0

	Department or agency		Program or activity	2005 Total estimate (dollars in millions)	2005 Error rate (percent)	2006 Total estimate (dollars in millions)	2006 Error rate (percent)
		46	Temporary Assistance for Needy Families[d]	0.0	0.0	0.0	0.0
15	Department of Homeland Security	47	Individuals and Households Program	397.0[a]	8.6[a]	334.0	8.6
		48	Vendor payments	494.0[a]	7.4[a]	502.0	7.4
16	Department of Housing and Urban Development	49	Community Development Block Grant (Entitlement Grants, States/Small Cities)	8.0[a]	0.2[a]	4.4	0.1
		50	Federal Housing Administration's Single Family Acquired Asset Management System	2.2	0.6	0.0[j]	0.0[j]
		51	Low Income Public Housing	326.0	5.6	378.5	1.4
		52	Public Housing Capital Fund	133.5	5.1	0.0[j]	0.0[j]
		53	Section 8—Project Based	324.0	0.0[f]	362.6	1.3
		54	Section 8—Tenant Based	551.0	0.0[f]	723.2	2.7
17	Department of the Interior	55	All programs and activities[e]	0.0	0.0	0.0	0.0
18	Department of Justice	56	All programs and activities[e]	0.0	0.0	0.0	0.0
19	Department of Labor	57	Federal Employees' Compensation Act	3.3	0.1	0.3	0.0[b]
		58	Unemployment Insurance	3,267.0	10.1	3,376.0	10.7
		59	Workforce Investment Act	7.8[a]	0.2	6.4	0.2
20	National Aeronautics and Space Administration	60	All programs and activities[e]	0.0	0.0	0.0	0.0
21	National Archives and Records Administration	61	All programs and activities	0.0[i]	0.0[i]	0.0[e]	0.0[e]
22	National Credit Union Administration	62	All programs and activities	0.0[g]	0.0[g]	0.0[h]	0.0[h]
23	National Science Foundation	63	Research and Education Grants and Cooperative Agreements	1.1	0.0[b]	0.0[j]	0.0[j]
24	National Transportation Safety Board	64	All programs and activities	0.0[i]	0.0[i]	0.0[g]	0.0[g]
25	Nuclear Regulatory Commission	65	All programs and activities[e]	0.0	0.0	0.0	0.0

	Department or agency		Program or activity	2005 Total estimate (dollars in millions)	2005 Error rate (percent)	2006 Total estimate (dollars in millions)	2006 Error rate (percent)
26	Office of Personnel Management	66	Federal Employees Group Life Insurance	3.4[a]	0.3[a]	0.8	0.1
		67	Federal Employees Health Benefits Program	196.7[a]	0.7[a]	62.5	0.2
		68	Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)	153.0[a]	0.3[a]	253.5	0.4
27	Pension Benefit Guaranty Corporation	69	All programs and activities	0.0[g]	0.0[g]	0.0[e]	0.0[e]
28	U.S. Postal Service[g]	70	All programs and activities	0.0	0.0	0.0	0.0
29	Railroad Retirement Board	71	Railroad Unemployment Insurance Benefits	2.6[a]	2.3[a]	2.7	2.3
		72	Retirement and Survivors Benefits	151.8[a]	1.7[a]	157.0	1.7
30	Securities and Exchange Commission	73	All programs and activities[e]	0.0	0.0	0.0	0.0
31	Small Business Administration	74	504 Certified Development Companies[d]	0.0	0.0	0.0	0.0
		75	7(a) Business Loan Program	8.7[a]	1.4[a]	10.2	1.6
		76	Disaster Assistance	1.6	0.1	89.4	0.8
		77	Small Business Investment Companies	125.0[a]	4.7[a]	0.0[c]	0.0[c]
32	Smithsonian Institution[g]	78	All programs and activities	0.0	0.0	0.0	0.0
33	Social Security Administration	79	Old Age and Survivors' Insurance	3,681.0	0.7	3,280.0	0.6
		80	Disability Insurance	0.0[f]	0.0[f]	0.0[f]	0.0[f]
		81	Supplemental Security Income Program	2,910.0	7.7	3,028.0	7.8
34	Department of State	82	International Information Program—U.S. Speaker and Specialist Program	1.9	81.2	6.7[k]	23.8
		83	International Narcotic and Law Enforcement Affairs—Narcotics Program	0.6	0.0[b]	12.4[k]	4.0
		84	Structures and Equipment	0.2	0.0[b]	0.0[j]	0.0[j]
		85	Vendor payments	0.4	0.0[b]	0.0[j]	0.0[j]
35	Tennessee Valley Authority	86	Payment programs	36.3	0.5	7.5	0.1

	Department or agency		Program or activity	2005 Total estimate (dollars in millions)	2005 Error rate (percent)	2006 Total estimate (dollars in millions)	2006 Error rate (percent)
36	Department of Transportation	87	Airport Improvement Program	0.0[l]	0.0[l]	0.0[d]	0.0[d]
		88	Federal Transit—Capital Investment Grants	0.0[l]	0.0[l]	0.0[d]	0.0[d]
		89	Federal Transit—Formula Grants	0.0[l]	0.0[l]	0.0[d]	0.0[d]
		90	Highway Planning and Construction	0.0[l]	0.0[l]	30.2	0.2
37	Department of the Treasury	91	Earned Income Tax Credit	10,500.0	25.5	10,700.0	25.5
38	Department of Veterans Affairs	92	Compensation	306.0[a]	1.1	324.6	1.0
		93	Dependency and Indemnity Compensation	0.0[f]	0.0[f]	0.0[f]	0.0[f]
		94	Education programs	32.3[a]	1.2[a]	67.2	2.2
		95	Insurance programs	0.3	0.0[b]	0.0[j]	0.0[j]
		96	Loan Guaranty	3.5[a]	0.3[a]	0.9	0.1
		97	Pension	370.9[a]	10.9[a]	370.6	10.7
		98	Vocational Rehabilitation	6.2[a]	1.1[a]	6.0	1.0
	Total			**$39,310.2**		**$41,643.3**	

Sources: GAO prior report and analysis of cited agencies' fiscal year 2006 PARs or annual reports.

[a]Fiscal year 2005 estimates or error rates were updated to the revised estimates reported in the fiscal year 2006 PARs or annual reports.

[b]Agency reported error rate was less than one percent or reported the error rate rounded to zero for purposes of this testimony.

[c]Agency did not report an annual improper payment estimate or error rate.

[d]See table 3 of this testimony.

[e]Agency reported that it had no programs or activities susceptible to significant improper payments.

[f]Agency combined with the program above.

[g]Agency did not address improper payments or IPIA in its PAR or annual report for fiscal year 2005, fiscal year 2006, or both.

[h]Agency PAR or annual report was not available as of the end of fieldwork.

[i]Fiscal year 2006 was the first year this agency was included in our scope of review.

[j]Agency reported program no longer susceptible to significant improper payments.

[k]We obtained this amount from OMB.

[l]Agency reported that the annual improper payment amount or error rate was zero.

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