United States Government Accountability Office

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Report to Congressional Requesters

November 2006

IMPROPER PAYMENTS

Agencies' Fiscal Year 2005 Reporting under the Improper Payments Information Act Remains Incomplete

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GAO-07-92

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Highlights

Highlights of GAO-07-92, a report to congressional requesters

November 2006

IMPROPER PAYMENTS

Agencies' Fiscal Year 2005 Reporting under the Improper Payments Information Act Remains Incomplete

Why GAO Did This Study

Fiscal year 2005 marked the second year that executive agencies were required to report improper payment information under the Improper Payments Information Act of 2002 (IPIA). As a steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees spend billions of taxpayer dollars and is responsible for safeguarding those funds against improper payments.

GAO was asked to determine the progress agencies have made in their improper payment reporting and the total amount of improper payments recouped through recovery auditing. To accomplish this, GAO reviewed improper payment information reported by 35 agencies in their fiscal year 2005 performance and accountability or annual reports.

What GAO Recommends

GAO suggests that the Congress consider amending IPIA provisions to define specific criteria agencies should use to ensure that the full extent of improper payments is being captured. GAO also makes four recommendations to the Office of Management and Budget (OMB) to facilitate agencies' progress in ensuring accurate and complete improper payments and recovery auditing reporting. OMB generally agreed with GAO's recommendations and outlined actions planned and under way for continued progress.

www.gao.gov/cgi-bin/getrpt?GAO-07-92.

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

While making progress, agencies' fiscal year 2005 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. GAO found that these challenges continue to hinder full reporting of improper payment information because of the following three factors:

- **Existing reporting incomplete**. Although 18 agencies collectively identified and estimated improper payments for 57 programs and activities totaling $38 billion, some agencies still had not instituted systematic methods of reviewing all programs, resulting in their identification of none or only a few programs as susceptible to significant improper payments. In many cases, these same agencies had well-known and documented financial management weaknesses as well as fraudulent, improper, and questionable payments. Further, improper payment estimates totaling about $389 million for 9 programs were not based on a valid statistical sampling methodology as required. Higher estimates would have been expected had the correct methods been used, given that total outlays for these 9 programs exceeded $58.2 billion.
- **Large programs still not included**. Improper payment estimates for 10 risk-susceptible programs with outlays totaling over $234 billion still have not been provided. Most of these programs were subject to OMB reporting requirements that preceded IPIA.
- **Threshold criteria limit reporting**. The act includes broad criteria to identify risk-susceptible programs. OMB's implementing guidance includes more specific criteria that limit the disclosure and transparency of agencies' improper payments.

With regard to agencies' recovery audit efforts, GAO found that the data reported may present an overly optimistic view of these efforts. While 21 agencies were required to report on their recovery audit efforts, GAO identified discrepancies in several agencies' information and found limited reviews over contract payments. For example, for fiscal year 2005, the National Aeronautics and Space Administration (NASA) reported that it had identified and recovered $617,442 in contract payments, a 100 percent recovery rate. Yet, the NASA Office of Inspector General reported it had identified over $515 million in questioned contract costs during fiscal year 2005, of which NASA management decided to pursue recovery of $51 million. Had this amount been compared to the $617,442 NASA actually recovered, its recovery rate would drop from the reported 100 percent to 1.2 percent. In addition, we noted that 5 of the 21 agencies did not review all of their agency components as part of their recovery audit efforts while 2 agencies reported that recovery auditing was not cost beneficial without reporting any details to support this determination.

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Abbreviations

CDBG	Community Development Block Grant
CMS	Centers for Medicare and Medicaid Services
DHS	Department of Homeland Security
DOD	Department of Defense
DOJ	Department of Justice
DOT	Department of Transportation
EITC	Earned Income Tax Credit
FECA	Federal Employees' Compensation Act
FEMA	Federal Emergency Management Agency
FERS	Federal Employees Retirement System
FSA	Federal Student Aid
FUTA	Federal Unemployment Tax Act
GSA	General Services Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IHP	Individuals and Households Program
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service
NASA	National Aeronautics and Space Administration
NDNH	National Directory of New Hires
OCFO	Office of Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PBM	pharmaceutical benefits manager
PMA	President's Management Agenda
RRB	Railroad Retirement Board
SBA	Small Business Administration
SSA	Social Security Administration
SSI	Supplemental Security Income
UI	Unemployment Insurance
USDA	Department of Agriculture
VA	Department of Veterans Affairs

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United States Government Accountability Office
Washington, D.C. 20548

November 14, 2006

Congressional Requesters

Fiscal year 2005 marked the second year that federal executive branch agencies were required to report improper payment information under the Improper Payments Information Act of 2002 (IPIA).[1] IPIA has increased visibility over improper payments by requiring executive agency heads, based on guidance from the Office of Management and Budget (OMB),[2] to identify programs and activities susceptible to significant improper payments,[3] estimate amounts improperly paid, and report on the amounts of improper payments and their actions to reduce them. 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.

Our work over the past several years has demonstrated that improper payments are a long-standing, widespread, and significant problem in the federal government.[4] Yet, the extent of the problem initially had been masked because only a limited number of agencies reported their annual payment accuracy rates and estimated improper payment amounts prior to the passage of IPIA.

As we reported in March 2005,[5] regarding the first year reporting under IPIA, the improper payment estimate of $45 billion did not include any amounts for some of the highest risk programs, such as Medicaid with

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

[2]OMB Memorandum M-03-13, "Improper Payments Information Act of 2002" (Public Law 107-300), May 21, 2003; OMB Circular No. A-136, *Financial Reporting Requirements*, § II.5.6 (July 24, 2006). OMB recently issued revised guidance for fiscal year 2006 reporting in Memorandum M-06-23, Issuance of Appendix C to OMB Circular No. A-123 (Aug. 10, 2006).

[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]See the Related GAO Products list at the end of this report.

[5]GAO, *Financial Management: Challenges in Meeting Requirements of the Improper Payments Information Act*, GAO-05-417 (Washington, D.C.: Mar. 31, 2005).

outlays in excess of $175 billion for fiscal year 2004. Further, we noted that 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. We concluded that the magnitude of the governmentwide improper payments problem is still unknown because agencies have not yet prepared improper payment estimates for all of their programs. In that report, we made three recommendations to OMB to help ensure successful implementation of IPIA requirements.

Because of the continued interest in addressing the governmentwide improper payments issue, you asked us to determine (1) the extent to which agencies have included required improper payment information in their performance and accountability reports (PAR), (2) the annual improper payment estimate reported by agencies for fiscal year 2005, (3) whether the definition and types of improper payments included in IPIA and OMB's implementing guidance provide adequate disclosure of the extent of improper payments at the agencies, and (4) the reported amount of improper payments recouped through recovery audits.

The scope of our review included the 35 federal agencies that the Department of the Treasury (Treasury) determined to be significant to the U.S. government's consolidated financial statements. We reviewed improper payment information reported by the 35 agencies in their fiscal year 2005 PARs or annual reports. We also reviewed OMB guidance on implementation of IPIA and its report[6] on the results of agency-specific reports, significant findings, agency accomplishments, and remaining challenges. 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 this agency-reported data as descriptive information that will inform interested parties about the magnitude of governmentwide improper payments and other improper payments-related information. We believe the data to be sufficiently reliable for this purpose. We conducted our work from April 2006 through September 2006 in accordance with generally accepted government auditing standards. See appendix I for more details on our scope and methodology.

[6] Office of Management and Budget, *Improving the Accuracy and Integrity of Federal Payments* (Washington, D.C.: Feb. 2, 2006).

Results in Brief

Our review of agencies' reporting of selected improper payment information identified that improvements are still needed to fully address improper payments reporting requirements. For example, we found agencies' reporting of improper payment information was incomplete and the extent and level of detail of agencies' improper payment information varied. Furthermore, the total improper payment estimate does not include several large, risk-susceptible federal programs, while other program estimates included in the total are not statistically valid. In addition, we found that OMB's existing threshold criteria to assess program susceptibility to significant improper payments affect how agencies identify these programs, thus limiting the disclosure and transparency of governmentwide improper payments.

Generally, agencies must perform four key steps to address the improper payment reporting requirements—perform a risk assessment, estimate improper payments for risk-susceptible programs and activities, implement a plan to reduce improper payments for programs with estimates exceeding $10 million, and annually report improper payment estimates and actions to reduce them. Of the 35 agencies in our review, 23 reported that they had performed risk assessments of all of their programs and activities, while 12 had not. In addition, the adequacy of some of these risk assessments was questionable. For example, the auditors for the Departments of Justice (DOJ) and Homeland Security (DHS) cited agency noncompliance with IPIA in their fiscal year 2005 annual audit reports, primarily caused by inadequate risk assessments.

A lack of detailed guidance may be a contributing factor to agencies' inability to adequately assess their programs for risks. Specifically, we found that OMB's implementing guidance does not include a description of the common types of risk factors agencies should consider when annually reviewing their programs, such as program complexity, operational changes, findings from investigative reports, and financial statement and performance audit reports. Agencies have developed their own processes for conducting risk assessments, which may not satisfactorily identify programs susceptible to improper payments. For example, at the Department of Agriculture (USDA), its auditors reported that the agency's risk assessments were not adequate to estimate the agency's susceptibility to improper payments because the Office of Chief Financial Officer's (OCFO) guidance was not prescriptive and detailed enough to translate into meaningful results.

For fiscal year 2005, 18 agencies reported improper payment estimates for 57 programs totaling in excess of $38 billion,[7] which is $7 billion less than the $45 billion reported for fiscal year 2004.[8] Of the 18 agencies reporting improper payment estimates, 14 agencies had one or more programs with improper payment estimates exceeding $10 million, and thus were required to prepare and implement a plan to reduce improper payments and report on actions taken. Key elements that agencies are required to report on include causes of improper payments and corrective actions, manager accountability, and statutory barriers.[9] Generally, agencies reported this information for one or more of their programs in their PARs. However, the extent and details of reporting varied. For example, 1 agency addressed the manager accountability reporting element in one sentence while 2 other agencies provided information on how each program manager was held accountable for each of their high-risk programs identified.

Although the federal government continues to make progress in meeting the requirements of IPIA, agencies' fiscal year 2005 reporting does not yet reflect the full scope of improper payments across government. Specifically, the $7 billion reported decrease in the total improper payment estimate represents a reduction of 16 percent reported by agencies in fiscal year 2004. On the surface, this would suggest that significant progress has been made. Yet, we found that the reduced estimate for improper payments for fiscal year 2005 may not represent actual improvements in this area.

In fact, all indications are that the estimate should be markedly higher because the total improper payment estimate does not include certain

[7]Included in this estimate were 10 agencies reporting for the first time improper payment estimates of almost $1.2 billion for 17 programs. Also, the governmentwide estimate includes both over- and underpayments. OMB's implementing guidance requires agencies to report the gross versus net total of both over- and underpayments.

[8]In their fiscal year 2005 PARs, several agencies updated their fiscal year 2004 improper payment estimates to reflect changes since issuance of their fiscal year 2004 PARs. These updates increased the governmentwide improper payment estimate for fiscal year 2004 from $45 billion to $46 billion.

[9]For these three key requirements, OMB requires the following: (1) causes of improper payments and corrective actions—a discussion of the causes of the improper payments identified, actions taken to correct those causes, and results of the actions taken to address those causes; (2) manager accountability—a description of the steps (including timeline) the agency has taken and plans to take to ensure that agency managers (including the agency head) are held accountable for reducing and recovering erroneous payments; and (3) statutory barriers—a description of any statutory or regulatory barriers that may limit the agency's corrective actions in reducing erroneous payments.

factors that if included, would increase the estimate. For example, agencies have not estimated improper payments for 10 risk-susceptible programs with outlays totaling over $234 billion, even though most of these programs had such reporting requirements predating IPIA.[10] In addition, we found that improper payment estimates totaling about $389 million for 9 programs were not based on a statistical sampling methodology.[11] Given that total outlays for these 9 programs exceeded $58.2 billion in fiscal year 2005, estimates for these programs would likely have been much greater had statistically valid methods been used. Also, agency auditors have reported major management challenges that highlight internal control weaknesses that continue to plague programs susceptible to significant improper payments. In some cases, agencies reported that their programs were not susceptible to significant improper payments, despite the fact that the auditor's reports in the same PARs identified major program management challenges, including significant internal control weaknesses.

Further, OMB's implementation[12] of the act's broad 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 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 payment total. In addition, we note that the definition of improper payments under IPIA excludes certain types of payments

[10]Prior to the executive branch-wide 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.

[11]Agency-reported estimates were primarily based on known cases identified through Office of Inspector General audits and other isolated instances. However, one agency reported using a combination of statistical and nonstatistical methodologies, but did not identify what portion of the estimate was calculated using statistical sampling. Any agency that reported using nonstatistical sampling methodologies to calculate its programs' improper payment estimates was included in this analysis.

[12]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.

required to be made under constitutional, statutory, or judicial requirements, even though those payments are subsequently determined to be incorrect. This includes payments that an agency must make pursuant to a statute or court order that later are determined to be overpayments. Yet, because agencies are not required to track, monitor, and report on these types of overpayments, the governmentwide magnitude of this issue is unknown.

Lastly, with regard to agencies' recovery audit efforts, the data reported may not present an accurate view of the extent of these efforts. While 21 agencies were required to report on their recovery audit efforts, we identified discrepancies in several agencies' information and found limited reviews over contract payments. For example, for fiscal year 2005, the National Aeronautics and Space Administration (NASA) reported that it had identified and recovered $617,442 in contract payments, a reported 100 percent recovery rate. Yet, the NASA Office of Inspector General (OIG) reported it had identified over $515 million in questioned contract costs during fiscal year 2005, of which NASA management decided to pursue recovery of $51 million. Had the $51 million amount been compared to the $617,442 NASA actually recovered, its recovery rate would drop from the reported 100 percent to 1.2 percent. In addition, we noted that 5 of the 21 agencies did not review all of their agency components as part of their recovery audit efforts while 2 agencies reported that recovery auditing was not cost beneficial without reporting any details to support this determination.

This report includes one matter for congressional consideration and four recommendations for executive action. Specifically, to ensure that the full extent of improper payments is being captured, the Congress should consider whether existing IPIA provisions should be amended to define specific criteria, such as a dollar threshold, agencies should use to identify which programs and activities are susceptible to significant improper payments, thereby triggering improper payment estimating and reporting requirements. In addition, to facilitate agencies' progress in ensuring accurate and complete improper payments and recovery auditing reporting, we recommend that OMB take several actions regarding (1) risk assessment methodologies and the level of detail necessary to meet the annual improper payment reporting requirements, (2) statistically valid estimates, (3) extent of payments agencies make under statute or judicial determinations that later are determined to be overpayments, and (4) agencies' rationale that recovery auditing is not cost beneficial.

In commenting on a draft of this report, OMB generally agreed with our recommendations and highlighted progress made in the second year of governmentwide improper payments reporting, as well as initiatives under way to measure improper payments in selected programs susceptible to significant improper payments. For example, OMB reported that for fiscal year 2005, agencies estimated improper payments for 17 additional programs and that this number will increase again by 10 programs for fiscal year 2006. OMB also stated that beginning in fiscal year 2007, the Department of Health and Human Services (HHS) will begin reporting component error rates for its Medicaid, Temporary Assistance for Needy Families, and State Children's Health Insurance programs. OMB's written comments are reprinted in appendix IV.

Background

IPIA was passed in November 2002 with the major objective of enhancing the accuracy and integrity of federal payments. IPIA requires executive branch agency heads to review their programs and activities annually and identify those that may be susceptible to significant improper payments. For each program and activity agencies identify as susceptible, the act requires them to estimate the annual amount of improper payments and to submit those estimates to the Congress. The act further requires that for programs for which estimated improper payments exceed $10 million, agencies are to report annually to the Congress on the actions they are taking to reduce those payments.

The act requires the Director of OMB to prescribe guidance for agencies to use in implementing IPIA. OMB issued implementing guidance in May 2003, which requires the use of a systematic method for the annual review and identification of programs and activities that are susceptible to significant improper payments. The guidance defines significant improper payments as those in any particular program that exceed both 2.5 percent of program payments and $10 million annually.[13] It requires agencies to estimate improper payments annually using statistically valid techniques for each susceptible program or activity. For those agency programs determined to be susceptible to significant improper payments and with estimated annual improper payments greater than $10 million, IPIA and related OMB guidance require each agency to annually report the results of its efforts to reduce improper payments.

[13]IPIA does not mention the "exceeding the 2.5 percent of program payments" threshold that OMB uses for identifying, estimating, and reporting improper payments.

In addition, applicable agencies are required to report their efforts to recoup contract-related improper payments under section 831 of the National Defense Authorization Act for Fiscal Year 2002.[14] This legislation contains a provision that requires all executive branch agencies entering into contracts with a cumulative 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. The act further states that a required element of such a program is the use of recovery audits and recovery activities. The law authorizes federal agencies to retain recovered funds to cover in-house administrative costs as well as to pay other contractors, such as collection agencies. Agencies that are required to undertake recovery audit programs were directed by OMB to provide annual reports on their recovery audit efforts, along with improper payment reporting details in an appendix to their PARs.

In August 2006, OMB revised its IPIA implementing guidance. The revision consolidates into Appendix C of OMB Circular No. A-123, *Management's Responsibility for Internal Control*,[15] all guidance for improper payments and recovery auditing reporting.[16] The revised guidance includes authorization for risk assessments to be conducted less often than annually for programs where improper payment baselines are already established, are in the process of being measured, or are scheduled to be measured by an established date. Although OMB kept its criteria for defining significant improper payments as those exceeding both 2.5 percent of program payments and $10 million, OMB added that it may determine on a case-by-case basis that certain programs that do not meet the threshold may be

[14]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).

[15]OMB Circular No. A-123 provides a central reference point for guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal control. The circular emphasizes the need for integrated and coordinated internal control assessments that synchronize all internal control-related activities. In addition to *Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments*, there are two other appendixes to A-123—*Appendix A, Implementation Plans* (Aug. 1, 2005), and *Appendix B, Improving the Management of Government Charge Card Programs* (revised February 2006).

[16]The three memorandums consolidated in Appendix C include M-03-13, "Improper Payments Information Act of 2002 (Public Law 107-300)," May 21, 2003; M-03-07, "Programs to Identify and Recover Erroneous Payments to Contractors," January 16, 2003; and M-03-12, "Allowability of Contingency Fee Contracts for Recovery Audits," May 8, 2003.

subject to the annual reporting requirement. Additionally, the revised guidance allows agencies to use alternative sampling methodologies[17] and requires agencies to report on and provide a justification for using these methodologies in their PARs. This revised guidance is effective for agencies' fiscal year 2006 improper payment estimating and reporting in the PARs or annual reports. For the purposes of evaluating agency reporting in this report, we used the requirements from the OMB implementing guidance effective for fiscal year 2005.

OMB has also established Eliminating Improper Payments as a new program-specific initiative under the President's Management Agenda (PMA). This separate PMA program initiative began in the first quarter of fiscal year 2005. Previously, agency efforts related to improper payments were tracked along with other financial management activities as part of the Improving Financial Performance initiative of the PMA. The objective of establishing a separate initiative for improper payments was 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. With this new initiative, 15 agencies[18] are to measure their improper payments annually, develop improvement targets and corrective actions, and track the results annually to ensure the corrective actions are effective.

The fiscal year 2005 PARs, the second set of annual reports representing the results of improper payments assessments for federal executive branch agency programs, were due November 15, 2005. In our December 2005 report[19] on the U.S. government's consolidated financial statements for the fiscal years ended September 30, 2005, and 2004, which includes our associated opinion on internal control, we reported improper payments as a material weakness in internal control. Specifically, we reported progress in implementing processes and controls to identify, estimate, and reduce

[17]An example of an alternative sampling methodology includes developing an annual error rate for a component of the program.

[18]The 15 agencies include 14 that were previously required to report improper payments information under OMB Circular No. A-11 and DHS.

[19]For GAO's audit report on the U.S. government's consolidated financial statements for fiscal year 2005, see Department of the Treasury, *Financial Report of the United States Government* (Washington, D.C.: December 2005), 135-154, which can be found at www.gao.gov.

improper payments, but that significant challenges remain to effectively achieve the goals of IPIA.

Improvements Needed in Agencies' Reporting of Improper Payment Information

Our review of agencies' reporting of select improper payment information identified that improvements are still needed to fully address improper payment reporting requirements. Of the 35 fiscal year 2005 agency PARs or annual reports included in our review, 23 agencies reported they had performed risk assessments of all of their programs and activities. However, the results of certain agencies' risk assessments appear questionable. For example, agency management at DOJ and DHS reported that based on their risk assessments, no risk-susceptible programs were identified. Yet, these agencies' auditors cited agency noncompliance with IPIA in their fiscal year 2005 annual audit reports, primarily caused by inadequate risk assessments.

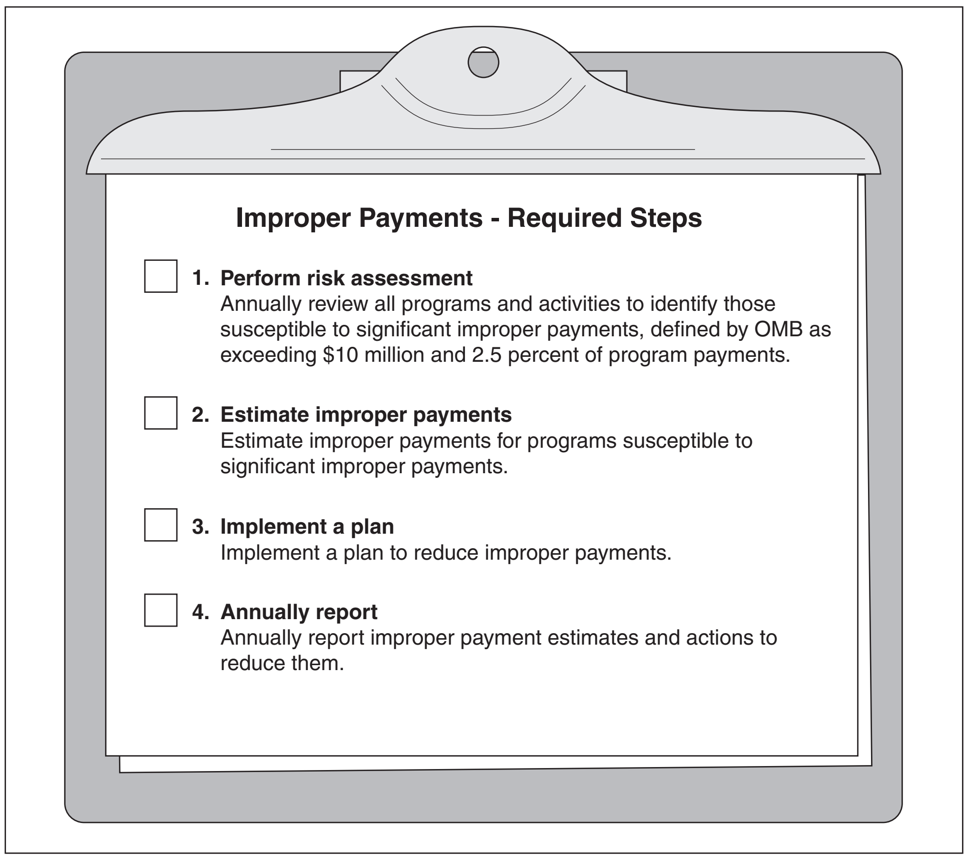
Eighteen of the 35 agencies reported improper payment estimates totaling in excess of $38 billion for some or all of their high-risk programs in fiscal year 2005. Of the 18 agencies, 14 reported having one or more programs with improper payment estimates that exceeded $10 million, and thus were required to implement plans to reduce improper payments and report on actions taken.[20] Based on our review of these key improper payment reporting requirements, we generally found that the applicable agencies reported this information for one or more of their programs in their PARs as required. However, the extent and details of reporting varied among the agencies. For example, the Office of Personnel Management (OPM) addressed the manager accountability reporting requirement in one sentence for its risk-susceptible programs, while USDA and the Department of Veterans Affairs (VA) provided information on how each program manager was held accountable for each high-risk program identified. Six different agencies reported that the responsibility for improper payments is included in management's performance plans; however, specific details were not discussed.

IPIA and OMB's implementing guidance require agencies to annually review and identify programs susceptible to significant improper

[20]Four agencies—the Environmental Protection Agency, National Science Foundation, Department of State, and Department of Transportation—estimated improper payments, but were not required to include the additional reporting requirements in their PARs because none of their program estimates exceeded $10 million.

payments, estimate the amount of their improper payments, and report on the amount of their improper payments and their actions to reduce improper payments. 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. Figure 1 provides an overview of the four key steps OMB requires agencies to perform in meeting the improper payment reporting requirements.

Figure 1: Required Steps to Identify, Estimate, Reduce, and Report Improper Payment Information



Source: GAO.

Agencies must estimate improper payments for each susceptible program identified during the risk assessment process. In addition, agency programs that were included in former section 57 of OMB Circular No. A-11 must estimate improper payments even if the estimate does not exceed $10 million and 2.5 percent of program payments. Further, some agency programs voluntarily reported an improper payment estimate or other improper payment information. When the program improper payment estimates exceed $10 million, agencies are required to report on various actions they are taking to reduce improper payments, such as determining causes of improper payments and taking corrective actions and ensuring manager accountability, and statutory barriers that limit corrective actions to reduce improper payments. To address these three reporting requirements, OMB requires agencies to report the following information in their PARs:

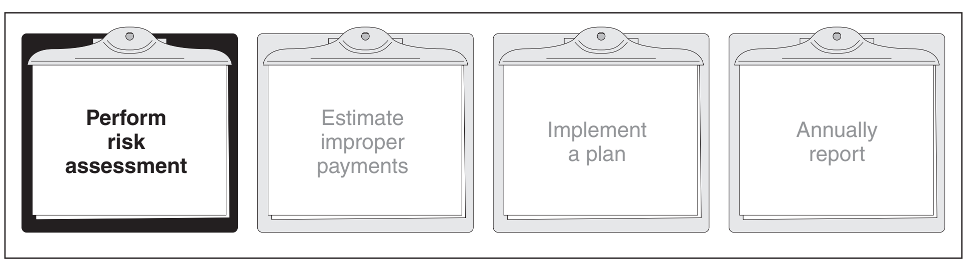
- *Causes of improper payments and corrective action.* A discussion of the causes of the improper payments identified, actions taken to correct those causes, and results of the actions taken to address those causes.

- *Manager accountability.* A description of the steps (including timeline) the agency has taken and plans to take to ensure that agency managers (including the agency head) are held accountable for reducing and recovering erroneous payments.

- *Statutory barriers.* A description of any statutory or regulatory barriers that may limit the agency's corrective actions in reducing erroneous payments.

Results of Selected Agencies' Risk Assessments Appear Questionable

Figure 2: Improper Payments—Step 1



Source: GAO.

Of the 35 fiscal year 2005 agency PARs or annual reports included in our review, 23, the same number of agencies that reported having risk assessments in our prior year review, reported they had performed risk assessments of all of their programs and activities. The remaining 12 agencies either did not report this information in their PARs or annual reports, or included some improper payment details in their PARs, but did not report assessing for the risk of improper payments for all of their programs and activities. Table 1 indicates for each of the 35 whether the agency reported having assessed all programs and activities.

Table 1: Agency Reporting of Risk Assessments Performed for All Programs and Activities

	Department or agency	Agency reported it had assessed all programs and activities
1	Agency for International Development	
2	Department of Agriculture	X
3	Department of Commerce	X
4	Department of Defense	X
5	Department of Education	X
6	Department of Energy	X
7	Environmental Protection Agency	
8	Export-Import Bank of the United States	
9	Farm Credit System Insurance Corporation	
10	Federal Communications Commission	X
11	Federal Deposit Insurance Corporation	
12	General Services Administration	X
13	Department of Health and Human Services	X
14	Department of Homeland Security	X
15	Department of Housing and Urban Development	X
16	Department of the Interior	X
17	Department of Justice	
18	Department of Labor	X
19	National Aeronautics and Space Administration	X
20	National Credit Union Administration	
21	National Science Foundation	X
22	Nuclear Regulatory Commission	X
23	Office of Personnel Management	X
24	Pension Benefit Guaranty Corporation	

(Continued From Previous Page)

	Department or agency	Agency reported it had assessed all programs and activities
25	U.S. Postal Service	
26	Railroad Retirement Board	X
27	Securities and Exchange Commission	
28	Small Business Administration	X
29	Smithsonian Institution	
30	Social Security Administration	X
31	Department of State	X
32	Tennessee Valley Authority	
33	Department of Transportation	X
34	Department of the Treasury	X
35	Department of Veterans Affairs	X
	Total	**23**

Source: GAO analysis of cited agencies' fiscal year 2005 PARs and annual reports.

The first step in OMB's implementing guidance requires agencies' use of a systematic method, also known as a risk assessment, to annually review and identify those programs and activities that are susceptible to significant improper payments. Although OMB's guidance identifies the scope of payments agencies are to review, such as federal awards made by recipients and subrecipients subject to the Single Audit Act, as amended,[21] it does not provide agencies detailed information on how to conduct a risk assessment in order to adequately carry out their responsibilities to meet the requirements of the act. Specifically, we found that OMB's guidance lacks a description of the common types of risk factors agencies should consider when annually reviewing their programs, such as program complexity; operational changes; and findings from investigative, financial statement, and performance audit reports. Developing such a framework would begin the process to effectively identify and target high-risk areas within a program and better position agencies as they determine which

[21]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 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. Organizations are required to have single audits if they annually expend $500,000 or more in federal funds.

control activities to implement to reduce risks and ultimately reduce fraud and errors.

Risk assessment is a key step in gaining 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 impact 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. In performing a risk assessment, management should consider all significant interactions between the entity and other parties as well as internal factors at both the entitywide and program levels.

The specific risk assessment methodology used can vary by organization because of differences in missions and the methods used in assigning risk levels. Risk identification methods often include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments. Because governmental, economic, and operating conditions continually change, risk assessments should be periodically updated to identify and deal with any special risks prompted by such changes.

Although 23 agencies reported meeting this requirement for all of their programs and activities, other readily available information suggests to us that the adequacy of agencies' risk assessments was questionable. For example, auditors for DOJ and DHS cited agency noncompliance with IPIA in their fiscal year 2005 annual audit reports, primarily caused by inadequate risk assessments. The DOJ auditor stated that one agency component had not established a program to assess, identify, and track improper payments. The DHS auditors reported that the department did not institute a systematic method of reviewing all programs and identifying those it believed were susceptible to significant erroneous payments. This was the second consecutive year that the auditor reported IPIA noncompliance for DHS. Although the auditors identified the agency's risk assessment methodology as inadequate, DHS again reported in its PAR that it had assessed all of its programs for risk and found none susceptible to significant improper payments.

However, existing significant financial management weaknesses at these agencies highlight visible, well-known risks for improper payments. For example, DHS continues to face significant financial management weaknesses as illustrated by previous reviews of the Federal Emergency Management Agency's (FEMA)—a DHS component—Individuals and Households Program (IHP). In November 2005, DHS received a disclaimer of opinion on its fiscal year 2005 balance sheet and its fiscal year 2004 consolidated financial statements,[22] primarily because of financial reporting problems. DHS's auditors cited 10 material weaknesses;[23] 2 other reportable conditions in internal controls; and 7 instances of noncompliance with applicable laws and regulations, 1 of those being noncompliance with IPIA, as mentioned previously. The DHS OIG cited disaster response and recovery as one of DHS's major management challenges for that year.

In May 2005, the DHS OIG reported[24] weaknesses in DHS's IHP program, including inspection and verification of losses reported by individuals related to the 2004 hurricane season as well as eligibility issues. Subsequently, in July 2005, the Senate Committee on Homeland Security and Governmental Affairs released its investigation results of FEMA's response to the 2004 Florida hurricanes, in particular, Hurricane Frances, and found similar weaknesses in FEMA's IHP program. In discussing its risk assessment methodology, DHS reported that FEMA's IHP might be at high risk for issuing improper payments as a result of the weaknesses identified in the DHS OIG report and performed a second round of testing of its fiscal year 2004 disbursements. From its test results, DHS concluded that its estimate of improper payments for the IHP did not meet OMB's

[22]DHS's auditors reported that they were engaged to audit the accompanying consolidated balance sheets of DHS as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing; combined statement of budgetary resources; and statement of custodial activity for the year ended September 30, 2004. The auditors were not engaged to audit the accompanying consolidated statements of net cost, changes in net position, and financing; combined statement of budgetary resources; and statement of custodial activity for the year ended September 30, 2005.

[23]A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance that are material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.

[24]Department of Homeland Security, Office of Inspector General, *Audit of FEMA's Individuals and Households Program in Miami-Dade County, Florida, for Hurricane Frances*, OIG-05-20 (Washington, D.C.: May 2005).

criteria of exceeding $10 million and 2.5 percent of program payments. DHS reported that IHP would receive closer scrutiny and undergo an independent payment review in fiscal year 2006, but that its sample payment testing did not show the program to be at high risk for improper payments.

Our recent review of FEMA's IHP shows a dramatically different result. In our June 2006 report,[25] we estimated improper payments related to FEMA's IHP of about $1 billion as of February 2006, related to individual assistance payments in response to hurricanes Katrina and Rita that occurred in 2005. This amount represents 16 percent of the IHP payments. For example, we determined that millions of dollars in expedited and housing assistance payments went to registrants who provided the names and Social Security numbers of individuals incarcerated in federal and state prisons during the hurricanes. In addition, FEMA improperly paid individuals twice for their lodging—paying both hotels and rental assistance. Also, FEMA could not establish that 750 debit cards worth $1.5 million went to Hurricane Katrina victims.

We noted risk assessment deficiencies at other agencies as well. The USDA OIG reported[26] that the agency's risk assessments were not adequate to estimate the agencies' susceptibility to improper payments because the guidance from the USDA's OCFO was not sufficiently prescriptive and detailed to translate into meaningful results. As such, the OIG recommended that 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. In another example, Treasury's OIG reported[27] that it planned to evaluate whether the agency's current process is effectively identifying and reducing erroneous payments, which further validates our concern that agencies' risk assessments may not be

[25]GAO, *Hurricanes Katrina and Rita Disaster Relief: Improper and Potentially Fraudulent Individual Assistance Payments Estimated to Be Between $600 Million and $1.4 Billion*, GAO-06-844T (Washington, D.C.: June 14, 2006).

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

[27]Department of the Treasury, Treasury Inspector General for Tax Administration, Office of Audit, *Annual Audit Plan Fiscal Year 2005*, Document 10932 (Rev. 9 2004), Catalog Number 26938H.

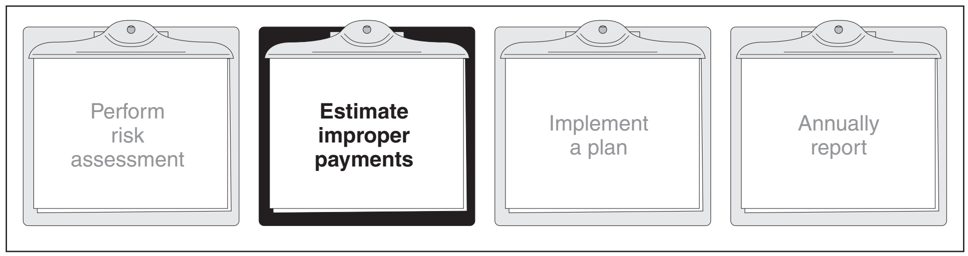
appropriately identifying a complete universe of programs and activities that are susceptible to significant improper payments.

In our previous report[28] on agencies' fiscal year 2004 improper payment reporting, we recommended that OMB require those agencies that did not address the IPIA requirements or did not perform risk assessments of all of their programs and activities to establish time frames and identify resources needed to perform risk assessments and satisfy reporting requirements. We also recommended that OMB develop a plan to address the resource needs of those agencies that did not perform risk assessments or satisfy reporting requirements. In response to our recommendations, OMB stated that pursuant to the PMA initiative—Eliminating Improper Payments—federal agencies were already required to submit relevant time frames and account for the resources necessary to complete planned actions. Furthermore, OMB stated that the remaining risk assessments to be completed, not covered by the PMA initiative, correlated to programs with relatively small outlays. As we stated in our March 2005 report, while we view the PMA initiative as a positive action, it applies to only 15 agencies—the 14 agencies that were previously required to report improper payments information under OMB Circular No. A-11 and DHS. However, this is not a comprehensive list because it does not include the remaining executive branch agencies covered under IPIA that are, to some extent, required to address improper payments for their programs and activities. Thus, agencies not included in the PMA initiative would not be required to establish time frames and account for needed resources under that effort. Therefore, we reaffirm our previous recommendations that OMB require those agencies that did not address the IPIA requirements or did not perform risk assessments for all of their programs and activities to establish time frames and identify resources needed to perform risk assessments and satisfy reporting requirements and that OMB develop a plan to address the resource needs of those agencies that did not perform risk assessments or satisfy reporting requirements.

[28] GAO-05-417.

Only a Limited Number of Agencies Are Estimating Improper Payments

Figure 3: Improper Payments—Step 2



Source: GAO.

Agencies must estimate improper payments for each risk-susceptible program identified during the risk assessment process. Of the 35 agencies, 18 agencies accounting for 57 programs reported improper payment estimates totaling in excess of $38 billion for some or all of their high-risk programs. (See app. II for further details.) Included in this estimate were 17 newly reported programs in 10 agencies, totaling about $1.2 billion for fiscal year 2005.

The total improper payment estimate of $38 billion represents approximately 2 percent of the total fiscal year 2005 government outlays of $2.5 trillion. For the remaining 17 agencies that did not report estimates, 8 said they did not have any programs susceptible to significant improper payments, 8 were silent about whether they had programs susceptible to significant improper payments, and the remaining agency identified programs susceptible to significant improper payments and said it planned to report an estimate by fiscal year 2007. Further details are included in table 2.

Table 2: Agency Improper Payment Estimate Reporting in Fiscal Year 2005

Department or agency	Agency reported estimate for one or more programs	Agency did not report estimate: Agency reported that no programs were susceptible to significant improper payments	Agency did not report estimate: Agency silent as to whether it had programs susceptible to significant improper payments	Agency did not report estimate: Agency reported future date to report estimate
1 Agency for International Development			X	
2 Department of Agriculture	X			
3 Department of Commerce		X		
4 Department of Defense	X			
5 Department of Education	X			
6 Department of Energy	X			
7 Environmental Protection Agency	X			
8 Export-Import Bank of the United States			X	
9 Farm Credit System Insurance Corporation			X	
10 Federal Communications Commission				X
11 Federal Deposit Insurance Corporation			X	
12 General Services Administration		X		
13 Department of Health and Human Services	X			
14 Department of Homeland Security		X		
15 Department of Housing and Urban Development	X			
16 Department of the Interior		X		
17 Department of Justice		X		
18 Department of Labor	X			
19 National Aeronautics and Space Administration		X		
20 National Credit Union Administration			X	
21 National Science Foundation	X			
22 Nuclear Regulatory Commission		X		
23 Office of Personnel Management	X			

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	Department or agency	Agency reported estimate for one or more programs	Agency did not report estimate: Agency reported that no programs were susceptible to significant improper payments	Agency silent as to whether it had programs susceptible to significant improper payments	Agency reported future date to report estimate
24	Pension Benefit Guaranty Corporation			X	
25	U.S. Postal Service			X	
26	Railroad Retirement Board	X			
27	Securities and Exchange Commission		X		
28	Small Business Administration	X			
29	Smithsonian Institution			X	
30	Social Security Administration	X			
31	Department of State	X			
32	Tennessee Valley Authority	X			
33	Department of Transportation	X			
34	Department of the Treasury	X			
35	Department of Veterans Affairs	X			
	Total	**18**	**8**	**8**	**1**

Source: GAO analysis of cited agencies' fiscal year 2005 PARs and annual reports.

Step 2 of OMB's guidance requires agencies to estimate the annual amount of improper payments for those programs susceptible to significant improper payments. Unless previously approved by OMB, this estimate must be based on a statistically valid sampling methodology[29] and should include a gross total of both over- and underpayments. In its Circular No. A-136, OMB encourages agencies to break out over- and underpayments as part of its improper payment reporting, if available. Of the 57 programs for which an estimate was reported for fiscal year 2005, a breakout between over- and underpayments was provided for 20 programs. This included 6 of the 7 largest programs that according to OMB, make up 95 percent of the

[29]OMB requires that agencies' statistical sampling methodologies be designed to yield estimates with a 90 percent confidence interval of plus or minus 2.5 percent.

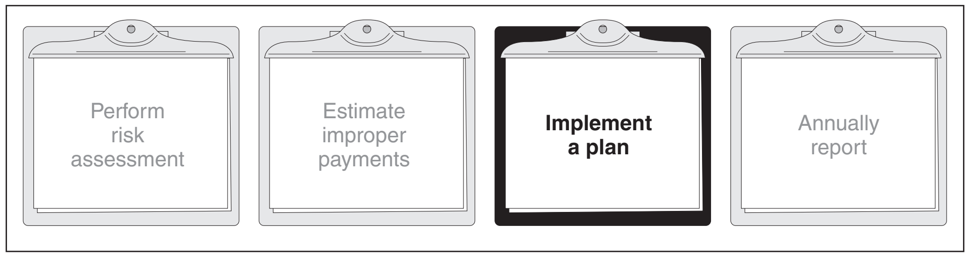
current total improper payment estimate.[30] Treasury's Earned Income Tax Credit (EITC) program, the second largest program constituting the reported improper payment total, is the only program of the 7 largest that did not do so. Of the 20 programs, 3 attributed all their improper payments to overpayments. For example, the USDA's Marketing Assistance Loan Program reported an improper payment estimate of about $45 million. USDA reported that the entire estimate resulted from overpayments made. For more details related to over- and underpayment estimates, see appendix III.

We also found that agencies' auditors identified challenges with certain program's improper payment estimates. USDA's OIG reported that it considers USDA's efforts to develop supportable methodologies to detect and estimate the extent of improper payments as a major challenge because of the number and complexity of USDA programs and activities that are subject to IPIA. In another example, agency auditors for the Department of Education (Education) raised concerns about the methodology Education used to estimate improper payments for its Federal Student Aid (FSA) program. The auditors reported that the methodology used did not provide a true reflection of the magnitude of improper payments in the student loan programs. Specifically, FSA's estimate is primarily based on actual questioned costs from OIG audits, does not extrapolate questioned costs associated with compliance violations identified through OIG audits, and does not take into account restitutions and penalties resulting from OIG investigations. To address improper payment estimating challenges, it will be critical that agencies follow existing OMB guidance to use a statistically valid sampling methodology.

[30]The seven programs that constitute 95 percent of the improper payment total are (1) Department of Health and Human Services' Medicare program, 32 percent; (2) Department of the Treasury's Earned Income Tax Credit program, 28 percent; (3) Social Security Administration's Old Age, Survivors', and Disability Insurance program, 10 percent; (4) Department of Labor's Unemployment Insurance program, 9 percent; (5) Social Security Administration's Supplemental Security Income program, 8 percent; (6) Department of Housing and Urban Development's Public Housing and Rental Assistance programs, 4 percent; and (7) Department of Agriculture's Food Stamp program, 4 percent.

The Extent and Level of Detail Related to Selected Reporting Requirements Varied

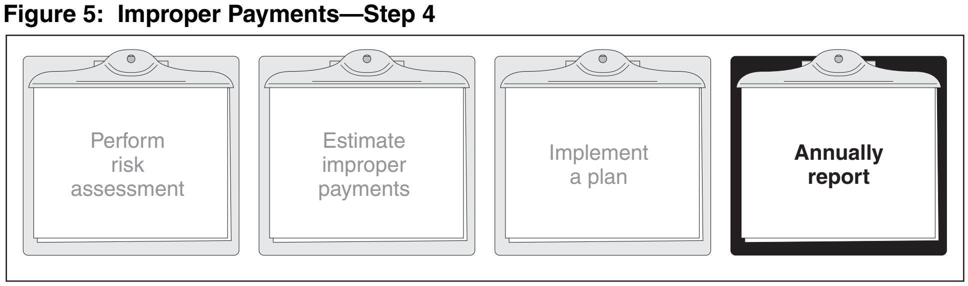
Figure 4: Improper Payments—Step 3



Source: GAO.

As previously mentioned, 18 of the 35 agencies reported over $38 billion of improper payments. Of the 18 agencies, 14 reported improper payment estimates that exceeded $10 million[31] for one or more programs, and therefore were required to implement plans to reduce improper payments under step 3 of OMB's guidance.

Figure 5: Improper Payments—Step 4



Source: GAO.

Based on these plans, under step 4 of OMB's implementing guidance agencies are required to report on various elements, such as a description of (1) the steps (including time line) the agency has taken and plans to take to ensure that agency managers (including the agency head) are held accountable for reducing and recovering erroneous payments and (2) any statutory or regulatory barriers that may limit the agency's corrective

[31] The four agencies that reported improper payment estimates yet did not exceed the $10 million threshold include the Environmental Protection Agency, the National Science Foundation, the Department of State, and the Department of Transportation. See app. II for additional information on improper payment estimates.

actions in reducing improper payments and any statutory or regulatory barriers that may limit the agencies' corrective actions in reducing improper payments. In addition, the 14 agencies with estimated improper payments greater than $10 million were required to report in their PARs or annual reports on the above elements as well as other areas, such as the causes of the improper payments, actions taken to correct those causes, and the results of those actions and additional reporting requirements. Generally, these agencies reported on their actions to address the additional reporting requirements in their PARs; however, the extent and details of reporting varied among agencies. Although not all of the agencies in table 3 provided meaningful descriptions for each of the additional reporting requirements, our table acknowledges all agencies that at least mentioned these reporting elements as part of their improper payment reporting. The results of agencies' reporting on these key elements are discussed in more detail in the following sections.

Table 3: Agency Reporting of Certain Reporting Requirements for One or More of Its Programs

	Department or agency	Agency reported on causes and corrective actions	Agency reported on manager accountability	Agency reported on statutory barriers
1	Department of Agriculture	X	X	X
2	Department of Defense	X	X	X
3	Department of Education	X	X	X
4	Department of Energy			
5	Department of Health and Human Services	X	X	X
6	Department of Housing and Urban Development	X	X	
7	Department of Labor	X	X	X
8	Office of Personnel Management	X	X	X
9	Railroad Retirement Board	X	X	
10	Small Business Administration	X	X	
11	Social Security Administration	X	X	X
12	Tennessee Valley Authority	X	X	
13	Department of the Treasury	X	X	X

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	Department or agency	Agency reported on causes and corrective actions	Agency reported on manager accountability	Agency reported on statutory barriers
14	Department of Veterans Affairs	X	X	X
	Total	**13**	**13**	**9**

Source: GAO analysis of cited agencies' fiscal year 2005 PARs or annual reports.

Causes of Improper Payments and Corrective Action Plans

Table 3 shows that 13 of the 14 agencies required to report on the causes of program improper payments and any associated corrective actions did so. Looking at this from a qualitative perspective, we noted that some agencies provided few details on the causes and corrective actions taken, while others provided detailed descriptions at the program level. For example, the Department of Labor (Labor) reported that the causes of improper payments for its Unemployment Insurance program resulted from claimants who continue to claim benefits despite having returned to work as well as coding errors that identify why the claimant separated from work. In contrast, the Small Business Administration (SBA) reported that it was planning to identify and track reasons for improper payments for one of its high-risk programs, but had not yet done so. Similarly, HHS did not list causes of improper payments for several of its risk-susceptible programs, although it provided detailed corrective actions for reducing improper payments. When no causes are reported, they sometimes can be inferred based on the descriptions of the corrective actions. However, without fully knowing what causes improper payments, it may be difficult for the agency to determine what types of internal control need to be implemented or changed and if the corrective actions in place will be effective in reducing improper payments. As agencies identify causes of improper payments, they can implement control activities to address identified risk areas and help ensure that management's decisions and plans are carried out and program objectives are met.

Manager Accountability

All but 1 of the 14 agencies also reported on efforts related to assigning and holding managers accountable for reducing improper payments. The remaining agency did not address this reporting requirement in its PAR. Generally, improper payments result from a lack of or inadequate system of internal control, but some result from program design issues. A key component of internal control is the control environment. A strong control environment is fundamental in creating a culture of accountability by establishing a positive and supportive attitude toward improvement and the achievement of established program outcomes, including protecting taxpayer interests in program integrity.

Similar to agencies' reporting on causes and corrections, we also found that agencies' reporting on the manager accountability requirement varied. For example, OPM addressed the manager accountability reporting requirement in one sentence for its risk-susceptible programs while USDA and VA provided information on how each program manager was held accountable for the high-risk programs identified. Furthermore, six different agencies reported that the responsibility for improper payments is included in management's performance plans; however, specific details were not disclosed. For example, the Railroad Retirement Board (RRB) reported that agency managers' performance plans are linked to RRB's strategic goals of paying benefits accurately and timely and providing prudent stewardship over the trust funds.

Statutory or Regulatory Barriers

Of the 14 agencies required to report on any statutory or regulatory[32] barriers, 9 agencies identified such barriers that may limit corrective actions to reduce improper payments. The remaining 5 agencies[33] were silent as to whether any statutory or regulatory barriers existed or reported that no barriers had been identified. Agencies cited various barriers that restrict their ability to better manage their programs against improper payments. We classified the reported barriers into five categories: (1) data matching, (2) contractual requirements, (3) state-administered program structure, (4) recovery auditing, and (5) other. We also identified agencies that reported barriers that were not related to a statute or regulation. Table 4 summarizes the statutory barriers agencies reported and, when provided, the legislation or regulation citation related to the barriers.

[32]The regulatory barriers reported represent governmentwide regulations that the agency has no authority to modify.

[33]The five agencies are the Department of Energy, Department of Housing and Urban Development, Railroad Retirement Board, Small Business Administration, and Tennessee Valley Authority.

Table 4: Agency-Reported Statutory Barriers to Reducing Improper Payments

Agency	Type of barrier(s)	Agency reported law or regulation related to barrier(s)
Department of Agriculture	Data matching, state-administered program structure, recovery auditing	Finality Rule-Department of Agriculture Reorganization Act of 1994, Section 281, generally precludes the use of recovery auditing techniques to recover payments considered final pursuant to 7 U.S.C. 7001(a).[a] Farm Security and Rural Investment Act of 2002, Section 1502(d)(2), requires the agency to use standards applied under an earlier law, thereby limiting the agency from developing a definition for a particular type of dairy producers.[a]
Department of Defense	Contractual requirements	The Department of Defense's Retired and Annuitant Pay Service Contract, when awarded, did not include the goals or mandates of IPIA. Any additional work or changes to meet the goals of IPIA would need a contract modification and be subject to Subpart 43.1 of the Federal Acquisition Regulation.[b]
Department of Education	Data matching	Section 6103 of the Internal Revenue Code concerning confidentiality of the tax return information precludes data matching.[c]
Department of Health and Human Services	State-administered program structure, other	Temporary Assistance for Needy Families legislation, including funding for Child Care Programs, specifically prohibits HHS from regulating the conduct of states, unless expressly provided. Requiring states to identify and report improper payments is not expressly required.[d]
Department of Labor	Data matching, state-administered program structure, recovery auditing	Section 3304(a)(4) of the Federal Unemployment Tax Act (FUTA) requires that moneys in the unemployment fund only be withdrawn for benefit payments, precluding the availability of money in the fund to be used for recovery auditing techniques. [a]
Office of Personnel Management	Contractual requirements, recovery auditing, other	5 U.S.C. § 8452 and 5 C.F.R. 844 Subpart C contain the Federal Employees Retirement System (FERS) disability offset provision which mandates that FERS benefits be reduced if the annuitant also receives Social Security benefits. However, the FERS benefits cannot be reduced until Social Security Administration starts paying the disability benefits so that OPM can reduce the FERS benefits to their proper level.[c] Generally, the Right to Financial Privacy Act (12 U.S.C. §. 3401-3422) requires financial institutions to obtain permission from their customers to disclose financial information. This requirement in effect bars OPM from obtaining posthumous payments information, preventing recovery of improper payments.[c] OIG lacks statutory or regulatory audit rights and only has limited audit rights in contracts entered into with pharmaceutical benefits managers.[b]
Social Security Administration	Other	Not cited.[b]
Department of the Treasury	Other	IRS Tax Code.[e]

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Agency	Type of barrier(s)	Agency reported law or regulation related to barrier(s)
Department of Veterans Affairs	Other	38 U.S.C. 5112(b)(4)(A)[c] prohibits adjustments to benefit payments until the first of the month after the change in a beneficiary's income. Thus, this creates an overpayment until the benefit payment is adjusted for the change in income. 38 U.S.C. 501(a) and 38 C.F.R. 3.103[c] preclude VA from changing benefit payments when it determines that an adjustment or termination of benefits is needed. VA must continue to make benefit payments based on existing information until a claimant's due process has taken place, which requires giving the claimant 60 days to submit evidence for a claim. This, therefore, usually means VA must continue payment for approximately 90 days after discovery because any adjustments occur the first of the next month.

Sources: GAO analysis of cited agencies' fiscal year 2005 PARs or annual reports and OMB.

Note: We did not verify whether the legal citation reported actually results in a barrier.

[a]Agency provided specific legislative citation in its PAR.

[b]Agency did not provide a legislative citation in its PAR or to OMB.

[c]Specific legal citation provided by OMB.

[d]General legal citation provided by OMB.

[e]Agency only provided a general citation in its PAR.

Only two of the nine agencies mentioning statutory barriers cited the specific law or regulation related to a corresponding barrier in their PARs. The remaining seven agencies described the barrier but did not provide a specific law or regulation in their PARs. For three of these seven agencies, we were able to obtain specific legislative citations for some of the agency-reported barriers from OMB, and included these in table 4. The remaining four agencies did not provide specific legislative citations in their PARs, nor did the agencies provide them when we followed up with OMB. The lack of transparency in agencies' reporting of specific legislative or regulatory barriers impedes the Congress's ability to use its authorization, appropriation, and oversight responsibility to help agencies meet performance goals. The Congress can review the actions taken and regulations formulated by departments and agencies to make certain that program officials appropriately execute the laws. If agencies provide the required information, the Congress can determine whether the public's needs are adequately served by federal programs, and thus take corrective action through legislative changes.

As we previously reported,[34] it should be recognized that many of these barriers exist as a result of decisions to ensure beneficiary privacy and other data safeguards and the inherent nature of some federal programs. As a result, it may be difficult to eliminate or mitigate these barriers to the point where they no longer restrict agency actions in certain areas to better manage their improper payment problems. Accordingly, federal agencies, the administration, the Congress, and the public must recognize that some level of improper payments will occur because of these public policy decisions.

Data matching. Three agencies reported barriers that prevented data matching with other agencies' computer databases to reduce improper payments. For example, Education reported that requirements in the Internal Revenue Code precluded data matching, but that a database match with the Internal Revenue Service (IRS) would likely improve the accuracy of Pell Grant awards. In addition, it would eliminate the need for schools to rely on paper copies of tax returns submitted by applicants, which are used to verify applicants' adjusted gross income and taxes paid. Currently, the schools have limited assurance that the tax returns submitted by the applicants contain the same information that is filed with IRS. However, Education's proposal to amend the Internal Revenue Code to permit a 100 percent database match has not yet been enacted, and Education is uncertain whether or when such legislation may be enacted. As a further illustration, Labor reported that for its Federal Employees' Compensation Act (FECA) program,[35] legislation does not currently permit FECA to verify employment earnings with the Social Security Administration (SSA) without the claimant's written permission. Compensation benefits may be overpaid if an employee has unreported earnings and does not grant Labor permission to verify earnings with SSA.

Contractual requirements. Two agencies reported contractual requirements as a barrier to reducing improper payments. For example, OPM reported that its OIG has begun an initiative to audit pharmaceutical benefits managers (PBM). However, in some cases, the OIG has only limited audit rights based on the carrier's contracts with the PBMs. To mitigate this, OPM is in the process of revising the Federal Employees

[34]GAO, *Financial Management: Coordinated Approach Needed to Address the Government's Improper Payments Problems*, GAO-02-749 (Washington, D.C.: Aug. 9, 2002).

[35]This act was repealed and parts of it are now codified in code sections of Titles 1, 5, and 18 of the United States Code.

Health Benefits Acquisition Regulations to require carriers to provide the OIG complete audit rights in all contracts entered into with PBMs.

State-administered program structure. Three agencies reported barriers resulting from the state-administered structure of their programs. For example, Labor reported that by statute, states administer the Unemployment Insurance (UI) program and set operational priorities. Therefore, the agency reported it has limited ability to ensure that the states pursue improper payment reduction activities. In another example, HHS stated that for Medicaid and the State Children's Health Insurance Program, its ability to minimize improper payments was limited in the absence of statutory authority to hold states accountable for meeting targets for the reduction and recovery of improper payments.

State-administered programs are particularly vulnerable to improper payments. Generally, the federal government provides broad statutory and regulatory guidelines as well as all or a part of the program funding, while the other entities manage the day-to-day program operations. As such, federal agencies must depend on state, county, and local officials and other entities to ensure that eligibility requirements are met and that benefit amounts are determined correctly. Further, states may have little incentive to ensure that the right amounts go to the right individuals.

Recovery auditing. Three agencies reported that their ability to reduce improper payments through recovery auditing techniques was barred by statute. For example, USDA reported that Section 281 of the Department of Agriculture Reorganization Act of 1994 precluded the use of recovery auditing techniques because Section 281 provides that 90 days after the decision of a state, county, or an area committee is final, no action may be taken to recover the amounts found to have been disbursed as a result of the decision in error unless the participant had reason to believe that the decision was erroneous. In another example, Labor stated that Section 3304(a)(4) of the FUTA, which states that moneys in the fund can only be used for benefit payments, precludes using the funding for recovery auditing techniques.

Other. Five agencies reported statutory or regulatory barriers that we categorized as other. For example, VA reported that under current legislation, adjustments to payments are effective the first of the month following the month of the change in income or net worth. Additionally, benefits are paid on a prospective basis based on the beneficiary's estimate of anticipated income. Thus, VA stated that an award adjustment because of changes in income is always after the fact and creates an overpayment. Despite this, VA believes this legislation should not be changed since the program meets the requirement to provide income support for current needs. As a second example, OPM stated that if an applicant receives FERS and Social Security disability benefits, then the FERS benefits are statutorily required to be reduced.[36] However, OPM cannot reduce the applicant's FERS benefits until it knows the amount of Social Security disability benefits that the applicant receives from SSA. Typically, the applicant receives FERS benefits first and does not start receiving SSA disability benefits until several months later. As a result, OPM makes FERS benefit overpayments to the applicant knowing that it will have to subsequently reduce the FERS benefits to the proper level when SSA starts paying the disability benefits.

During our analysis, we also identified two additional agencies that reported barriers in their improper payment information, but these barriers did not result from existing statutory requirements. For example, USDA reported that its program administration of the Food and Nutrition Service is highly decentralized and can involve a myriad of governmental and nongovernmental organizations. This decentralization is a hindrance to the development of robust accountability processes. As another example, Treasury reported several barriers to reducing overpayments in the EITC program, including high program turnover and unscrupulous tax preparers.

For the nine agencies that reported statutory or regulatory barriers, five agencies discussed in their PARs actions that they were taking to mitigate the effects of the barriers identified. For example, USDA reported that its Rural Housing Service agency is seeking to overcome a data-matching barrier through legislation that would permit access to HHS's National Directory of New Hires (NDNH) data to allow management agents to use the data to collect and verify the tenant's income documentation. As a second example, Labor reported that Section 3304(a)(4) of FUTA and Section 303(a)(4) of the Social Security Act require that moneys deposited into the UI program must be used for benefits and are precluded from being used for prevention, detection, and recovery of improper payments. Labor has proposed legislation with its fiscal year 2006 budget that would relax the "withdrawal standard" barrier to provide additional funding for recovery initiatives.

[36] 5 U.S.C. § 8452.

We also noted that according to OMB's annual improper payments report that six agencies requested legislative intervention in their fiscal year 2007 budget submissions to facilitate better measurement, detection, and elimination of improper payments. For five of these agencies, the legislative intervention addressed some barrier reported in their PARs. For example, Labor proposed a legislative change related to overpayment recoveries in its UI program. According to OMB, the legislative changes provide financial incentives to states to more aggressively pursue benefit overpayments, enlist debt collection agencies, impose penalties for fraud, charge employers when their actions lead to overpayments, and collect delinquent overpayments through garnishment of tax refunds. OMB also noted that these proposed legislative changes would further improve the accuracy of the hiring data in the NDNH by including the actual start work date, thereby improving the detection of potential improper payments. OMB reported that this proposal is projected to save $1.2 billion over 10 years.

Improper Payments Estimate Is Understated

The total improper payment estimate of about $38 billion represents almost a $7 billion, or 16 percent, decrease from the $45 billion of improper payments reported by agencies in fiscal year 2004.[37] On the surface, this would suggest that significant progress has been made. However, this is not the case because the reported $7 billion reduction in the total improper payments estimate may not reflect improved accountability or strengthened internal controls. As we previously reported in March and April 2006,[38] this estimate reduction is primarily attributable to a decrease in HHS's Medicare program improper payment estimate. This decrease mainly resulted from a change to Medicare's estimating methodology rather than from improved payment controls. Regardless of whether prior year estimates were reliable, the reported reduction is unlikely to represent a measurable improvement in internal control and accountability given that HHS's OIG continued to cite the integrity of Medicare payments as a top

[37]In their fiscal year 2005 PARs, several agencies updated their fiscal year 2004 improper payment estimates to reflect changes since issuance of their fiscal year 2004 PARs. These updates increased the governmentwide improper payment estimate for fiscal year 2004 from $45 billion to $46 billion.

[38]GAO, *Financial Management: Challenges Remain in Meeting Requirements of the Improper Payments Information Act*, GAO-06-482T (Washington, D.C.: Mar. 9, 2006), and *Financial Management: Challenges Continue in Meeting Requirements of the Improper Payments Information Act*, GAO-06-581T (Washington, D.C.: Apr. 5, 2006).

management challenge in HHS's fiscal year 2005 PAR. As discussed previously, other agency auditors have reported major management challenges that highlight internal control weaknesses that continue to plague programs susceptible to significant improper payments. In some cases, agencies reported that their programs were not susceptible to significant improper payments, despite the fact that the auditor's reports in the same PARs identified major management challenges, including significant internal control weaknesses, for some of the agencies' programs.

Also, the total improper payment estimate does not include certain factors that if resolved, would materially increase reports of estimated improper payments. For example, 10 risk-susceptible programs with outlays totaling over $234 billion for fiscal year 2005 did not estimate improper payments, even though OMB required most of these programs to report selected improper payment information several years before IPIA became effective. In addition, we found six agencies that did not use statistical sampling for 9 programs to estimate improper payment amounts. Because nonstatistical sampling methods were used, such as results from Single Audit Act[39] reports and internal performance reviews, the $389 million reported represents only the known improper payment amounts reported by agencies. Given that total outlays for these 9 programs exceeded $58.2 billion in fiscal year 2005, the improper payment estimate for these programs would likely have been much greater had statistically valid methods been used. We also found instances where agencies estimated improper payments for only one component of the risk-susceptible program. Using these types of methodologies results in estimates that may be significantly understated.

Some Agencies Continue to Lack Improper Payment Estimates for Susceptible Programs

The fiscal year 2005 governmentwide improper payments estimate of $38 billion did not include any amounts for 10 programs, with fiscal year 2005 outlays totaling over $234 billion. OMB had specifically required 7 of these programs 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. The remaining 3 risk-susceptible programs, with no previous reporting

[39] 31 U.S.C. Chp. 75.

requirement, provided target dates for estimating improper payments. As shown in table 5, the fiscal year 2005 improper payment estimate does not include one of the largest federal programs determined to be susceptible to risk, HHS's Medicaid program, with outlays exceeding $181 billion annually.

Table 5: Susceptible Programs That Did Not Report Improper Payment Estimates and Target Dates for Estimates

Dollars in billions

Agency/program	Fiscal year 2005 outlays	Target date for improper payment estimates	Previously required to estimate
Department of Agriculture—School Programs	$8.2	2007	X
Federal Communications Commission—Universal Service Fund's Schools and Libraries	1.7	2007	
Federal Communications Commission—High Cost Support Program	3.8	2007	
Department of Health and Human Services—State Children's Insurance Program	5.1	2008	X
Department of Agriculture—Women, Infants, and Children	4.8	2008	X
Department of Health and Human Services—Medicaid	181.7	2008	X
Department of Agriculture—Child and Adult Care Food Program	2.1	2010	
Department of Health and Human Services—Child Care and Development Fund	4.9	Did not report target date	X
Department of Health and Human Services—Temporary Assistance for Needy Families	17.4	Did not report target date	X
Department of Housing and Urban Development—Community Development Block Grant	5.0	Did not report target date	X
Total	**$234.7**		**7**

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

Of these 10 programs, 7 reported that they would be able to estimate and report on improper payments sometime within the next 3 fiscal years, but could not do so for fiscal year 2005. For the remaining 3 programs, the agencies did not estimate improper payment amounts in their fiscal year 2005 PARs and were silent about whether they would report estimates in the future. As a result, improper payments for these programs susceptible to risk will not be known for at least several years, even though 7 of these programs had been required to report this information since 2002, with their fiscal year 2003 budget submissions under previous OMB Circular No. A-11 requirements.

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 HHS and other agencies with state-administered programs face is the ability to hold states accountable for meeting targets to reduce and recover improper payments in the absence of specific statutory authority.

Of the three programs that did not report a target date for estimating, the Department of Housing and Urban Development's (HUD) Community Development Block Grant (CDBG) program was the only one that did not report any actions under way to begin estimating improper payments. In its fiscal year 2005 PAR, HUD reported that based on completed testing of fiscal year 2003 payments, this program is below OMB's threshold criteria—exceeding $10 million and 2.5 percent of program payments—for significant improper payments and, therefore, was removed from HUD's at-risk inventory. HUD stated that this program was not subject to retesting unless there was a significant change in the nature of activity or internal control structure.

We have several problems with HUD's position. The CDBG program was subject to the previous OMB Circular No. A-11 requirements and thus was required by OMB's guidance to continue to report improper payment information under IPIA, regardless of the agency-determined risk level, which based on other known information may not reflect actual risk. During a June 2006 hearing[40] on the CDBG program, HUD's OIG reported on numerous instances of fraudulent, improper, and abusive use of program funds identified over a 2-½-year period based on 35 audits. The HUD OIG reported that its office has recovered over $120 million in program funds, identified over $100 million in questioned costs, indicted

[40]June 29, 2006, hearing before the Senate Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs.

159 individuals, initiated administrative actions against 143 individuals, and took 5 civil actions and 39 personnel actions. As evidenced by the HUD OIG reviews, the CDBG program may be at risk of significant improper payments.

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

The total executive branch-wide improper payment estimate may also be understated because of nonstatistical sampling methodologies agencies used to estimate improper payments in its programs. OMB's implementing guidance requires that agencies use a statistical sample to estimate improper payments. With statistical sampling, sample results can be generalized to the entire population from which the sample was taken. From our review, we found six agencies that did not use statistical sampling to estimate improper payments totaling approximately $389 million for nine programs with outlays exceeding $58 billion.

For example, Labor analyzed fiscal year 2003 single audits to identify questioned costs for its Workforce Investment Act[41] 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. 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 also found instances where agencies estimated improper payments for only one component of the risk-susceptible program. For example, HHS's Medicare program is the largest program constituting the total improper payment estimate, with an estimate of $12.1 billion for fiscal year 2005. 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, with outlays totaling about

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

$52 billion, or 15 percent of Medicare program outlays. In its fiscal year 2005 financial report, HHS's Centers for Medicare and Medicaid Services (CMS) identified bringing the Medicare managed care component into compliance with IPIA as a key challenge in the coming years. In addition, CMS's external auditors identified Medicare's managed care benefits payment cycle as a material weakness in its report on internal controls. Specifically, the auditor found that existing CMS policies and procedures are not sufficient to adequately reduce the risk of material benefit payment errors from occurring or not being detected and corrected in a timely manner.

In addition, the Department of Transportation (DOT) reported zero improper payments based on its testing of four state-administered grant programs with outlays totaling $42.1 billion in fiscal year 2005. (See app. II.) DOT stated that none of these programs exceeded OMB's reporting criteria. However, DOT's test procedures only applied to payments made by DOT to grantee entities. Test procedures did not address subsequent "flow down" payments made at the grantee level, where the risk of improper payments is at its greatest. As such, the DOT OIG reported in the agency's fiscal year 2005 PAR that detecting improper payments and stopping wasteful spending by grantees is a top management challenge for the agency. DOT stated that it had actions under way to implement an improper payment methodology for its grant programs and plans to implement nationwide testing beginning in fiscal year 2007.

Reduction in Improper Payment Estimate May Not Be a Result of Improved Accountability and Enhanced Internal Controls

The reported $7 billion decrease in the governmentwide estimate is primarily attributable to a decrease in Medicare's estimate.[42] However, we found that this decrease was mainly a result of an improvement made to Medicare's estimating methodology rather than to improved payment controls. When providers do not submit documentation to justify payments received, these payments were counted by HHS as erroneous for purposes of calculating an annual improper payment estimate for the Medicare program. However, the decreased error rates achieved this year because of increased efforts to obtain provider documentation are not directly

[42]We determined that the decrease was primarily caused by a $9.6 billion reduction in the HHS Medicare program improper payment estimate, which was partially offset by more programs reporting estimates of improper payments, resulting in a net decrease of $7 billion. The $9.6 billion reduction is the difference between the fiscal year 2004 estimate of $21.7 billion and the fiscal year 2005 estimate of $12.1 billion.

comparable to those reported in prior years before the new procedures were implemented.

Based on our review, the Medicare improper payment estimate decrease was principally caused by increased efforts to educate health care providers about its Medicare error rate testing program and the importance of responding to its requests for medical records to perform detailed statistical reviews of Medicare payments. HHS reported that these more intensive efforts had dramatically reduced the number of "no documentation" errors in its medical reviews. HHS reported marked reductions in its error rate attributable to fewer cases of (1) nonresponses to requests for medical records and (2) insufficient documentation submitted by the provider. We noted that these improvements partially resulted from HHS extending the time that providers have for responding to documentation requests from 55 days to 90 days.

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 may represent a refinement in the program's improper payment estimate, the reported reduction may not reflect improved accountability over program dollars. Therefore, the federal government's progress in reducing improper payments may be exaggerated because the reported improper payments decrease in the Medicare program accounts for the bulk of the overall reduction in the governmentwide improper payments estimate.

Our work did not include an overall assessment of HHS's estimating methodology. However, we noted that the changes made for the fiscal year 2005 estimate were not related to improvements in prepayment validation processes, and we did not find any evidence that HHS had significantly enhanced its preventive controls in the Medicare payment process to prevent future improper payments. Further, we also found that HHS's OIG continues to cite the integrity of Medicare payments as a top management challenge. In addition, health care fraud schemes continue to hamper HHS's efforts to improve accountability. For example, in May 2006, DOJ reported[43] that a businessman pleaded guilty to conspiracy to defraud Medicare of $40 million in fraudulent billings over a 16-month period. The

[43]Department of Justice, United States Attorney's Office, Southern District of Texas, News Release, "Local Businessman Pleads Guilty to Conspiracy to Defraud Medicare of $40 Million," May 30, 2006.

fraud scheme included billing Medicare for motorized wheelchairs that were either not required by the Medicare beneficiary, not delivered, or both.

Other agency auditors have also reported major management challenges related to agencies' internal control weaknesses that continue to plague programs susceptible to significant improper payments. For example, SBA's auditors reported that for the 7(a) Business Loan program, SBA did not consistently identify instances of noncompliance with its own requirements, resulting in improper payments. In some cases, agencies reported that they had determined that programs were not susceptible to significant improper payments despite the fact that the auditor's reports in the same PARs identified management challenges, or material weaknesses within the programs. For example, the Department of the Interior's OIG reported that the agency's grant programs lacked proper management, creating accountability and stewardship deficiencies, as well problems related to data reliability, training, and ensuring that funds were spent appropriately. Likewise, the General Services Administration's (GSA) OIG reported several issues related to the agency's contract management practices, such as unauthorized personnel issuing task orders, not inspecting completed work projects prior to payment, not ensuring services were rendered prior to payment, and paying invoices that often lacked supporting documentation.

Table 6 provides four other examples of agencies' major management challenges, as reported in the fiscal year 2005 PARs, in specific agency programs or activities. None of the programs listed in table 6 have been identified by agencies as susceptible to significant improper payments, and thus are not included in the total improper payment estimate. These examples raise further questions about the adequacy of agencies' risk assessments to identify susceptible programs, and whether agencies considered major management challenges identified by the OIG as part of their risk assessment process.

Table 6: Examples of Programs or Activities with Major Management Challenges but Not Identified as Susceptible to Significant Improper Payments

Department or agency	Program or activity	Description of major management challenge identified by the OIG
Department of the Interior	Workers' Compensation	• Inefficient and ineffective management led to increases in annual costs. At best, program is managed inconsistently, and at worst, is subject to abuse by managers seeking an easy way to deal with problem employees. • Program is understaffed, employees lack training, and there is no uniform process for ensuring that costs are accurate. Also, there is an overwhelming lack of awareness that workers' compensation fraud exists.
General Services Administration	Contract Management	• GSA disbursed almost $19 billion in contract payments for fiscal year 2005. Certain trends identified in recent years that cause concern related to contract management include • limited project oversight and, at times, completed work projects not inspected prior to payment; • payments made for services not provided; and • invoices approved for payment, but lacked supporting documentation.
Department of Justice	Grant Programs	• Long-standing challenge to effectively manage grant programs, which totaled more than $3.5 billion in fiscal year 2005. Grantees have received unclear, untimely, and ambiguous guidance to carry out program objectives. • The myriad of policy guidance is often confusing and contradictory, increasing the risk that grantees will be less likely to satisfy their fiduciary responsibility to safeguard grant funds and ensure funds are used solely for the purposes for which they were awarded.
Social Security Administration	School Attendance	• Agency disbursed about $70 million in incorrect payments to 32,839 students. The OIG recommended, and SSA agreed, to ensure that the overpayments are established and that subsequent collection activities are initiated for those payments.

Source: GAO analysis of agencies' fiscal year 2005 PARs.

IPIA May Need to Be Amended to Ensure Agencies Fully Meet Its Objectives

IPIA includes broad criteria that agencies should use to annually assess what programs and activities are at risk of having improper payments. However, OMB has prescribed more specific criteria in its implementing guidance that in practice have the effect of limiting the disclosure and transparency of governmentwide improper payments. This limitation appears contrary to the objective of IPIA, which, among other things, was created to facilitate the Congress's understanding of the nature and extent of the governmentwide improper payment problem and hold agencies accountable for improved management over federal funds. An amendment to the act could clarify the criteria that agencies should use to identify which programs and activities are susceptible to significant improper payments to ensure agencies meet the intent of the act. In addition, we note that the definition of improper payments under IPIA excludes certain types of payments that are required to be made under constitutional, statutory, or judicial requirements, even though those payments are subsequently determined to be incorrect. This includes payments that an agency is required to make under statute or court order that later are determined to be overpayments. Because agencies are not required to track, monitor, and report on a governmentwide basis these types of overpayments, the magnitude of this issue is unknown.

Identification Threshold Limits Agency Reporting on Susceptible Programs

For purposes of assessing what programs and activities are at risk of improper payments, 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 define susceptibility. 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.

As stated earlier in this report, the information developed during a risk assessment forms the foundation 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. Thus, these assessment criteria affect how agencies identify, estimate, report on, and reduce those programs susceptible to significant improper payments. For example, of the 23 agencies that reported assessing all programs and activities, we found that 6 agencies limited their risk assessment reviews to only those programs that would likely meet OMB's definition of programs susceptible to significant improper payments. Two of these 6 agencies reported that they did not perform a comprehensive risk assessment for those programs with outlays of less than $10 million because the programs would not have exceeded both of OMB's threshold criteria. The remaining 4 agencies did not perform a comprehensive risk assessment of programs with outlays ranging from $40 million to $200 million, generally citing the threshold criteria as the reason for their exclusion.

We also noted instances where agencies with large program outlays reported that their programs or activities were not susceptible to significant improper payments because the improper payment estimates only exceeded one of OMB's criteria for reporting improper payment information, another example of how OMB's criteria could materially affect the extent to which agencies report improper payment information in their PARs. From our review of the 57 agency programs and activities that were included in the total $38 billion improper payment estimate, we identified 20 programs or activities that reported improper payment estimates exceeding $10 million, but not 2.5 percent of program outlays. We also identified 1 program that reported an error rate exceeding 2.5 percent of program outlays, but not $10 million. See table 7 for additional details.

Table 7: Agency Improper Payment Estimates Included in the Governmentwide Total That Met One of the Two OMB Reporting Criteria

	Department or agency	Program or activity	Program outlays (in millions)	Fiscal year 2005 improper payment estimate (in millions)	Fiscal year 2005 improper payment error rate (percentage)	Previous OMB Circular No. A-11 reporting requirements
1	Department of Agriculture	Marketing Assistance Loan Program (previously Commodity Loan Programs)	$6,400.0	$45	0.70	X
2		Federal Crop Insurance Corporation	3,170.0	28	0.89	
3		Farm Security and Rural Investment	1,027.0	16	1.55	
4	Department of Defense	Military Retirement Fund	35,700.0	49.3	0.14	X

(Continued From Previous Page)

	Department or agency	Program or activity	Program outlays (in millions)	Fiscal year 2005 improper payment estimate (in millions)	Fiscal year 2005 improper payment error rate (percentage)	Previous OMB Circular No. A-11 reporting requirements
5		Military Health Benefits	7,500.0	150	2.00	X
6		Military Pay	69,100.0	432	0.63	
7	Department of Education	Student Financial Assistance—Federal Family Education Loan	10,085.0	16	0.16	
8		Title I	12,520.0	149	1.19	X
9	Department of Energy	Payment programs	24,114.0	14.5	0.06	
10	Department of Health and Human Services	Head Start	6,865.0	110	1.60	X
11	Office of Personnel Management	Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)	54,800.0	152.2	0.28	X
12		Federal Employees Health Benefits Program	29,400.0	196.5	0.67	X
13	Railroad Retirement Board	Retirement and Survivors Benefits	9,185.4	150.6	1.64	X
14	Small Business Administration	Small Business Investment Companies	1,568.2	10.5	0.67	X
15	Social Security Administration	Old Age and Survivors' Insurance	493,300.0	3,681.0	0.74	X
16		Disability Insurance[a]				X
17	Department of State	International Information Program-U.S. Speaker and Specialist Program	41.0	1.9	4.63	
18	Tennessee Valley Authority	Payment programs	7,080.0	36.3	0.05	
19	Department of Veterans Affairs	Compensation	28,960.0	322.9	1.12	X
20		Dependency and Indemnity Compensation[a]				X
21		Education programs	2,661.0	64	2.40	
	Total		**$803,476.6**	**$5,625.7**		**13**

Source: GAO analysis of fiscal year 2005 PARs and annual reports.

[a]Agency combined with the above program.

As table 7 shows, we identified, in total, 21 programs or activities with improper payment estimates exceeding $5.6 billion that meet only one of OMB's reporting criteria. Most of these program estimates greatly exceeded $10 million and, without certain stipulations, could have avoided reporting improper payment information under OMB's reporting criteria. However, OMB has required that 13 of these 21 programs estimate improper payments regardless of dollar amount or error rate, because they had previous reporting requirements under OMB Circular No. A-11.[44] Nonetheless, if the Circular No. A-11 requirements did not apply or agencies decided not to voluntarily report on their improper payment estimates that were under OMB's reporting threshold, OMB's definition of significant improper payments could potentially mask the full scope of improper payments.

In addition to our analytical reviews above, we also found specific instances where OMB's definition of significant improper payments limits agencies' reporting. Although we do not know the extent of improper payments that are not reported, a limited number of agencies voluntarily provided information in their PARs that allowed us to determine the amount of improper payments for certain programs and activities that were excluded from the total improper payments estimate of $38 billion for fiscal year 2005. For example, Education identified three programs with estimated improper payments exceeding $10 million for each program, which totaled about $155 million in improper payments. In light of OMB's criteria, because these estimates did not exceed 2.5 percent of program outlays, they were not included in the agency's total improper payment estimate. In another example, the Department of Defense (DOD) OIG reported[45] it had identified about $23 million in improper payments related to the procurement of fuel at the Defense Energy Support Center during fiscal year 2005. DOD did not report this information in its PAR since the improper fuel payments did not exceed 2.5 percent of program payments.

As these examples illustrate, OMB's current criteria for identifying risk-susceptible programs limit the disclosure of valuable information that the Congress, the public, and others with oversight and monitoring interests need to hold agencies accountable for reporting and reducing improper

[44]See footnote 10 of this report.

[45]Department of Defense, Office of Inspector General, *Financial Management: Improper Payments for Defense Fuel*, D-2006-094 (Washington, D.C.: June 29, 2006).

payments. Thus, amending existing IPIA provisions to define risk-susceptible programs and activities, such as the use of a specific dollar threshold, would allow for more complete disclosure and transparency of govermentwide improper payment reporting and, in turn, would require OMB to revise its implementing guidance to reflect such amendments as well as align existing guidance with the intent of the act.

IPIA Definition of Improper Payments Excludes Certain Payments from Reporting

IPIA defines an improper payment as a 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. This includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, any payment for services not received, and any payment that does not account for credit for applicable discounts.

On August 28, 2003, OMB advised SSA on improper payment reporting. Under this advice, SSA was allowed to exclude from its estimate of improper payments those payments that it made following constitutional, statutory, or judicial requirements, even though those payments were subsequently determined to be incorrect. These payments were deemed by OMB to be "unavoidable" improper payments,[46] as there are no administrative changes SSA could implement that would eliminate such payments, nor would SSA be likely to receive other relief from such requirements.

As we previously reported,[47] although the definition of improper payments does not use the terms avoidable[48] or unavoidable, we agree with OMB that a payment that was made because of a legal requirement to make the payment subject to subsequent determinations that the payment is not due should not be included in an agency's estimate of its improper payments. We agree with OMB's conclusion not because it is an "unavoidable"

[46]OMB defines "unavoidable" payments as payments resulting from legal or policy requirements.

[47]GAO, *Post-Hearing Questions Related to Agency Implementation of the Improper Payments Information Act*, GAO-05-1029R (Washington, D.C.: Sept. 16, 2005).

[48]OMB defines "avoidable" payments as payments that could be reduced through changes in administrative actions.

payment but rather because it does not meet the definition of an improper payment under the act.[49]

In its Supplemental Security Income (SSI) program, SSA disburses disability payments to recipients at the beginning of the month based on the income and asset levels recipients expect to maintain during the month.[50] If SSA initially determines that an overpayment occurred, court decisions[51] and language in the Social Security Act allow individuals to continue receiving the same amount of SSI benefits pending the results of a hearing to determine eligibility. If the initial determination is affirmed, the payments made during the hearing and appeals processes are considered overpayments, which SSA may recover using a variety of means.[52]

In this example, SSA, because of the statutory requirement, must make the payment. The statute requires SSA to make the payment until applicable due process requirements result in a determination that the person is ineligible; therefore, the mandatory payments whether subsequently deemed to be correct or incorrect, have not been made to an ineligible recipient at the time they were made. Accordingly, the facts would not support inclusion of these overpayments as improper payments as defined under IPIA. However, if as a result of the due process procedures, it is subsequently determined that the recipient is no longer eligible for benefits and SSA makes a payment subsequent to these procedures, that amount would be an improper payment.

Yet, we would not go so far as to conclude that any payment that is unavoidable should not be included as an improper payment under IPIA. Rather, the exclusion of payments should be made individually on a fact-specific basis using the definition provided in IPIA. In addition, we believe that agencies should track and monitor these types of payments as part of

[49]Had we agreed with OMB's characterization, we would disagree that such payments should be excluded from IPIA reporting. We find nothing in the act that excludes "unavoidable" payments from coverage.

[50]Some government programs pay benefits in advance under the assumption that the beneficiary's circumstances, such as income and asset levels, will remain the same during the period for which payment was rendered.

[51]*Cardinale v. Mathews*, 399 F. Supp. 1163 (D.D.C. 1975), and *Goldberg v. Kelly*, 397 U.S. 254 (1970).

[52]42 U.S.C. §§ 423(g)(2) and 404.

their debt collection efforts and have the ability to readily report this type of information upon request. OMB currently does not require SSA to report in its PAR details relating to these types of overpayments, nor does OMB require governmentwide reporting of these types of overpayments, thus the magnitude of this issue is unknown. Having agencies annually report on these types of overpayments would provide Congress, agency management, and other decision maker's valuable information with which to determine the extent of these types of overpayments and to make policy decisions, if needed, to appropriately address this issue.

Agencies' Reporting of Recovery Auditing Information Questionable

We noted discrepancies in selected agencies' reporting of recovery audit information and limited reviews over contract payments. As a result, reporting for recovery auditing information may not represent an accurate view of the extent of agencies' efforts. From our review of agencies' PARs and discussions with OMB, we determined that 21 agencies reported entering into contracts with a total value in excess of $500 million and, thus were subject to recovery auditing requirements under section 831 of the National Defense Authorization Act for Fiscal Year 2002. Generally, these agencies reported on their recovery auditing efforts, such as the amount identified for recovery and the amount recovered. However, we noted a few instances where the agency amount of contract costs identified for recovery was considerably lower than the corresponding OIG amount identified from current year audit reviews. These discrepancies raise questions as to whether the agency amount identified for recovery should have been much higher, thereby significantly decreasing the reported agency-specific and overall governmentwide high rate of recovery. We also noted that 5 of the 21 agencies did not review all of their agency components as part of their recovery audit efforts, and 2 agencies reported that recovery auditing was not cost beneficial.

Section 831 of the National Defense Authorization Act provides an impetus for applicable agencies to systematically identify and recover contract overpayments. 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, are to be credited back to the original appropriation from which the improper payment was made, subject to restrictions as described in legislation. As we previously testified,[53] with the passage of this law, the Congress has provided agencies a much-needed incentive for identifying and recovering their improper payments that slip through agency prepayment controls.

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.

Nonetheless, 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 to pay bills and provide benefits properly in the first place. 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.

For fiscal year 2005, OMB expanded the type of recovery auditing information that agencies are to report in their annual PARs. Prior to fiscal year 2005, agencies were only required to report on the amount of recoveries expected, the actions taken to recover them, and the business process changes and internal controls instituted or strengthened to prevent further occurrences. In addition, OMB was not reporting on a governmentwide basis agencies' recovery audit activities in its annual report on agencies' efforts to improve the accuracy and integrity of federal payments. In fiscal year 2005, OMB required applicable agencies to discuss

[53]GAO, *Financial Management: Challenges Remain in Addressing the Government's Improper Payments*, GAO-03-750T (Washington, D.C.: May 13, 2003).

any contract types excluded from review and justification for doing so. In addition, agencies were required to report, in a standard 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.

As shown in table 8, 21 agencies reported over $340 billion as amounts subject to review for fiscal year 2005, while the contract amounts reviewed totaled over $287 billion. In addition, the 21 agencies reported identifying about $557 million in contracts for recovery, which represented less than two-tenths of a percentage of the $287 billion amount reviewed. Of the $557 million identified, agencies reported recovering $467 million in improper payments, an 84 percent recovery rate. However, we found two instances where the agency amount of contract costs identified for recovery was considerably lower than the corresponding OIG amount identified from current year audit reviews. These discrepancies raise questions as to whether the agency amount identified for recovery should have been much higher, thereby significantly decreasing the agency-specific and overall high rate of recovery.

Table 8: Improper Payment Amounts Recovered in Fiscal Year 2005

	Department or agency	Agency reported amount subject to review for fiscal year 2005 reporting	Agency reported actual amount reviewed and reported in fiscal year 2005	Agency reported amount identified for recovery in fiscal year 2005	Agency reported amount recovered in fiscal year 2005
1	Agency for International Development	$13,000,000,000	$13,000,000,000	$5,900,000	$5,782,000
2	Department of Agriculture	4,965,000,000	2,428,000,000	333,000	189,000
3	Department of Commerce[a,b]	Did not report	Did not report	96,354	84,551
4	Department of Defense	222,800,000,000	222,800,000,000	473,000,000	418,500,000
5	Department of Education[b]	Did not report	Did not report	274,367[c]	112,506[c]
6	Department of Energy	11,387,000,000	11,387,000,000	10,600,000	9,500,000
7	Environmental Protection Agency	6,460,000,000	175,600,000	130,000	130,000
8	General Services Administration	1,625,000,000	1,625,000,000	26,638,654	8,317,187
9	Department of Health and Human Services	12,600,000,000	11,100,000,000	2,100,000[d]	14,430
10	Department of Homeland Security	3,232,300,000	3,232,300,000	2,191,000	1,207,000

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	Department or agency	Agency reported amount subject to review for fiscal year 2005 reporting	Agency reported actual amount reviewed and reported in fiscal year 2005	Agency reported amount identified for recovery in fiscal year 2005	Agency reported amount recovered in fiscal year 2005
11	Department of Housing and Urban Development[b,e]	2,270,000,000	206,600,000	0[f]	0[f]
12	Department of the Interior[b]	4,790,000,000	4,790,000,000	1,548,620	195,479
13	Department of Justice	6,667,804,071	4,606,639,213	1,044,320	765,086
14	Department of Labor[b,e]	Did not report	Did not report	Did not report	Did not report
15	National Aeronautics and Space Administration[b]	Did not report	82,542,704	617,442	617,442
16	Social Security Administration	1,160,000,000	61,000,000	317,000	50,000
17	Department of State[g]	30,600,000,000	Did not report	5,350,000	5,190,000
18	Tennessee Valley Authority	5,557,600,558	38,491,498	909,573	443,763
19	Department of Transportation	3,064,875,000	2,587,772,000	2,663,984	2,663,984
20	Department of the Treasury	4,941,295,411	3,851,985,924	428,977	364,680
21	Department of Veterans Affairs	5,368,316,378	5,368,316,378	23,001,137	12,957,264
	Total	**$340,489,191,418**	**$287,341,247,717**	**$557,144,428**	**$467,084,372**

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

[a]Department of Commerce (Commerce) reported that the results of its recovery audit revealed no significant improper payments or internal control deficiencies. However, according to OMB, subsequent to its PAR issuance, Commerce reported that based on its final recovery auditing report, the amount identified for recovery totaled $96,354 and the amount actually recovered totaled $84,551 for fiscal year 2005.

[b]Commerce, Education, HUD, Interior, Labor, and NASA did not report on the required reporting elements nor did they follow the required format included in OMB's guidance.

[c]Subsequent to its PAR issuance, Education reported to OMB that as of December 14, 2005, $274,387 had been identified for recovery, and the amount collected totaled $112,506 based on its review of payments made over a 5-year period, with a collection threshold of $50.

[d]HHS reported that of the $2.1 million identified as potential improper payments, $1.3 million was determined to be related to payments that were either voided, subsequently credited, or both.

[e]HUD and Labor reported that recovery auditing efforts were not cost beneficial.

[f]For fiscal year 2005, HUD reported reviewing about $207 million in contract payments, but identified no improper payments for recovery.

[g]For the amount reviewed column, the Department of State reported the number of contract payments reviewed instead of the contract dollar amount reviewed.

For example, for fiscal year 2005, NASA reported in its PAR that it had identified and recovered $617,442 in contract payments, a 100 percent recovery rate. Yet, the NASA OIG reported[54] it had identified over $515 million in questioned contract costs during fiscal year 2005. Of this amount, NASA management decided that $51 million in contract costs should be pursued for recovery. When comparing the $51 million in questioned contract costs identified for recovery to the $617,442 NASA actually recovered, the recovery rate decreases from the reported 100 percent recovery rate to a 1.2 percent rate.[55] In another example, DOD reported in its PAR that it had identified for recovery $473 million and recovered about $419 million in contract payments, an 89 percent recovery rate. However, the DOD OIG reported[56] it had identified over $2 billion in questioned contract costs as of September 30, 2005. When comparing the $2 billion in questioned contract costs[57] to the $419 million DOD actually recovered, the recovery rate significantly decreases from a reported 89 percent recovery rate to 21 percent.

These two discrepancies alone significantly decrease OMB's reported overall recovery rate of 84 percent to a 22 percent recovery rate. Other factors would also suggest the recovery rate is indeed much lower. We noted other instances where OIG-reported questioned costs exceeded agency contract amounts identified for recovery. Because these costs were not specifically identified as contractor costs versus other payment types, we were unable to determine how much of the OIG-identified questioned costs related to contract costs.

[54]National Aeronautics and Space Administration, Office of Inspector General, *Semi-Annual Reports October 1, 2004-March 31, 2005* and *April 1-September 30, 2005* (Washington, D.C.).

[55]We found that the recovery rate could have been higher than the 1.2 percent calculation had we solely used the OIG reported amounts regarding the universe of questioned contract costs and subsequent amounts recovered. Specifically, the OIG reported that of the $51 million in questioned contract costs decided by NASA management, $16 million had been recovered. This results in a recovery rate of about 31 percent. While this recovery rate is higher than our calculated 1.2 percent recovery rate, it is still significantly lower than the 100 percent recovery rate reported by NASA in its PAR.

[56]Department of Defense, Office of Inspector General, *Semi-Annual Reports October 1, 2004-March 31, 2005* and *April 1-September 30, 2005* (Washington, D.C.).

[57]The OIG reported that the $2 billion in contract costs were deemed questionable because they did not comply with rules, regulations, laws, contractual terms, or a combination of these. Thus, we used the entire $2 billion to illustrate the disparity between what the OIG and agency reported.

In addition, another factor that may call into question the reported high recovery rate is that 5 of the 21 agencies did not review all of their agency components as part of their recovery audit efforts, and 2 agencies[58] reported that recovery auditing was not cost beneficial. For example, HUD determined that based on its review of $206.6 million in contract payments, none were found to be improper. Thus, HUD determined that pursuit of an ongoing recovery auditing program was not cost beneficial or necessary. Because section 831 of the National Defense Authorization Act requires agencies to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to contractors, agencies have determined that they may opt out of conducting a recovery audit if it is not deemed to be cost beneficial. However, neither of the two agencies that determined it was not cost beneficial to conduct a recovery audit provided support in their fiscal year 2005 PARs for this determination.

Conclusions

Improper payments are a serious problem. Agencies are working on this issue at different paces, and OMB has provided important leadership. Because the extent of the problem remains significantly understated, the level of effort necessary to address the full extent of improper payments is as yet unknown. We recognize that measuring improper payments and designing and implementing actions to reduce them are not simple tasks and will not be easily accomplished. The ultimate success of the executive branch's effort to reduce improper payments depends, in part, on each agency's continuing diligence and commitment to meeting the requirements of IPIA and the related OMB guidance. Full and reasonable disclosure of the extent of the problem could be enhanced by modifying the act's underlying criteria used to identify which programs and activities are susceptible to significant improper payments. OMB's implementing guidance can also be strengthened in several key areas. In this regard, in addition to the recommendations in this report, we reiterate that OMB require those agencies that did not address the IPIA requirements or did not perform risk assessments of all of their programs and activities to establish time frames and identify resources needed to perform risk assessments and satisfy reporting requirements. We also reiterate that OMB develop a plan to address the resource needs of those agencies that did not perform risk assessments or satisfy reporting requirements. With

[58]HUD and Labor reported that recovery auditing efforts were not cost beneficial.

the ongoing imbalance between revenues and outlays across the federal government, and the Congress's and the American public's increasing demands for accountability over taxpayer funds, identifying, reducing, and recovering improper payments become even more critical. Fulfilling the requirements of IPIA will require sustained attention to implementation on the part of OMB and the agencies, as well as continued congressional oversight to monitor whether desired results are being achieved.

Matter for Congressional Consideration

To help ensure the complete disclosure and transparency of governmentwide improper payments, the Congress should consider amending existing IPIA provisions to define specific criteria, such as a dollar threshold, agencies should use to identify which programs and activities are susceptible to significant improper payments.

Recommendations for Executive Action

We are making four recommendations to OMB to help further the progress toward meeting the goals of IPIA and ensuring the integrity of payments. Specifically, we recommend that the Director, Office of Management and Budget,

- expand OMB's IPIA implementing guidance to describe in greater detail
    - factors that agencies should consider when conducting their annual risk assessments, such as program complexity, operational changes, findings from investigative reports, and financial statement and performance audit reports, and
    - factors agencies should use when reporting improper payments in their PARs, such as (1) provide a baseline of what agencies should include when reporting on causes, corrective actions, and manager accountability and (2) require that applicable agencies cite the specific law or regulation in their PARs when describing statutory barriers that may limit the agencies' corrective actions for reducing improper payments;
- enforce existing guidance requiring agencies to use a statistically valid sampling methodology to calculate improper payment estimates;
- gather from agencies the dollar amount of payments that agencies make under statute or judicial determinations that later are determined to be

overpayments in order for OMB to assess and determine the magnitude of the issue and whether additional reporting is warranted; and

- modify existing guidance to require those agencies stating that recovery auditing over contract payments is not cost beneficial to include their rationale for this determination.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from OMB, and have reprinted them in appendix IV. OMB generally agreed with our recommendations and also agreed with our assessment that challenges remain in meeting the goals of IPIA. In its comments, OMB emphasized that progress in estimating and reporting improper payments had been made by agencies in fiscal year 2005 and highlighted initiatives underway to measure improper payments in other programs susceptible to significant improper payments. OMB pointed out that agencies estimated improper payments for 17 additional programs for fiscal year 2005, and that this number will increase by 10 programs for fiscal year 2006. OMB also said that beginning with fiscal year 2007, it expects HHS to begin reporting component error rates for its Medicaid, Temporary Assistance for Needy Families, and State Children's Health Insurance programs.

OMB stated that there has been substantial progress in that 85 percent of the cost for the programs identified as high risk ($1.3 trillion of the $1.5 trillion) reported an error measurement rate for fiscal year 2005. While we agree with OMB that there has been progress, as discussed in this report, we continue to question the validity of certain agencies' risk assessment methodologies used to identify, estimate, and report improper payments for all risk susceptible programs and are concerned with how OMB defines high risk programs for purposes of agencies' improper payment reporting. OMB's definition of programs susceptible to significant improper payments covers only those agencies with programs that exceed the criteria of 2.5 percent of program outlays and $10 million to estimate improper payments. Our continuing concern with OMB's criteria relates to those agencies with large program outlays that have improper payment estimates that exceed the $10 million threshold but not the 2.5 percent of program payments threshold. Applying the 2.5 percent threshold criteria to large programs could exclude potentially billions of dollars of improper payments from being reported.

According to OMB, the rationale for its threshold criteria is to ensure that agencies focus their resources on programs with the highest levels of risk for improper payments. OMB commented that going forward, it is now requiring agencies to track any programs that exceed the $10 million threshold, but have an error rate of less than 2.5 percent. OMB stated that this tracking facilitates a framework that would appropriately mitigate the risk that high risk programs will be left out of IPIA reporting activities. We view this as a positive step. Although OMB's recently revised implementing guidance was outside the scope of this review, our preliminary assessment found no mention of this tracking requirement. The guidance does state that OMB may determine on a case-by-case basis that certain programs that do not meet the threshold requirements may still be subject to the annual PAR improper payment reporting requirement. In light of OMB's stated intention to require agencies to track such programs, we believe it is key that the revised implementing guidance clearly reflects this tracking requirement and that agencies be required to publicly report this information as part of their annual improper payments reporting. Visibility of this type of information would help facilitate the Congress's understanding of the nature and extent of the governmentwide improper payments problem. To this end, we included a matter for congressional consideration to amend IPIA to eliminate any uncertainties regarding the identification of programs and activities that are susceptible to significant improper payments.

In its comments, OMB also mentioned that alternative sampling methodologies for deriving program component error rates are acceptable interim error measurements for select programs until comprehensive statistical estimates are completed. We would consider this a pragmatic approach for working with agencies to determine and implement appropriate and evolving methodologies for improving the sophistication of improper payment estimates for these programs. Realistically, larger, complex agency programs may require additional time to plan and implement actions to fully measure their improper payments, such as the programs cited by OMB as using alternative methodologies—Earned Income Tax Credit and National School Lunch and Breakfast—as well as initiating reporting of component error rates in the future—Medicaid, Temporary Assistance for Needy Families, and State Children's Health Insurance Program. It will be important that agencies make good use of this additional time. OMB had specifically required a number of agencies just now starting to report or planning to do so shortly, to report selected improper payment information since 2002, several years before the legislative reporting requirements in IPIA became effective. Until agencies begin to fully measure and report improper payments for these large programs, the extent of the problem and level of effort necessary to control these losses are as yet unknown.

We are sending copies of this report to the Director, Office of Management and Budget; appropriate congressional committees; and other interested parties. We will also make copies available to others upon request. In addition, the report is available at no charge on GAO's Web site at http://www.gao.gov.

Please contact me at (202) 512-9095 or williamsm1@gao.gov if you or your staffs have any questions about this report. 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 listed in appendix V.

McCoy Williams

McCoy Williams
Director, Financial Management and Assurance

List of Requesters

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

The Honorable Tom Davis
Chairman
Committee on Government Reform
House of Representatives

The Honorable Todd Platts
Chairman
Subcommittee on Government Management, Finance
and Accountability
Committee on Government Reform
House of Representatives

Objectives, Scope, and Methodology

The objectives of this report were to determine (1) the extent to which agencies have included required improper payment information in their performance and accountability reports (PAR), (2) the annual improper payment estimate reported by agencies for fiscal year 2005, (3) whether the definition and types of improper payments reported in the Improper Payments Information Act of 2002 (IPIA) and the Office of Management and Budget's (OMB) implementing guidance provide adequate disclosure of the extent of improper payments at the agencies, and (4) the reported amount of improper payments recouped through recovery audits. The scope of our review included the 35 federal agencies[1] that the Department of the Treasury determined to be significant to the U.S. government's consolidated financial statements.

To address the above objectives, we reviewed improper payment information reported by the 35 agencies in their fiscal year 2005 PARs or annual reports. We further reviewed and analyzed the provisions of IPIA and OMB's implementing guidance, as well as OMB's annual report[2] on the results of agency-specific reports, significant findings, agency accomplishments, and remaining challenges. We contacted OMB officials for clarification of reported information as needed. We also reviewed office of inspector general (OIG) reports, prior GAO reports, and other publicly available documents for reported improper payments information, including identifying agency reported improper or potentially fraudulent payments related to hurricanes Katrina and Rita. In addition, we utilized the results from our recent testimonies[3] on agencies challenges' in meeting IPIA reporting requirements.

As part of our review and analysis of agencies' reported improper payment information in their fiscal year 2005 PARs or annual reports, we

[1]See *Treasury Financial Manual*, vol. 1, part 2, ch. 4700. A list of 35 agencies is included in app. II.

[2]Office of Management and Budget, *Improving the Accuracy and Integrity of Federal Payments* (Washington, D.C.: Feb. 2, 2006).

[3]GAO, *Financial Management: Challenges Continue in Meeting Requirements of the Improper Payments Information Act*, GAO-06-581T (Washington, D.C.: Apr. 5, 2006), and *Financial Management: Challenges Remain in Meeting Requirements of the Improper Payments Information Act*, GAO-06-482T (Washington, D.C.: Mar. 9, 2006).

- determined whether agencies' had reviewed all programs and activities for risk-susceptible programs and reviewed details of agencies' risk-assessment methodologies when reported;
- identified program improper payment estimates, including error amounts and error rates, a breakdown of overpayments and underpayments, and program outlays;
- identified agencies' sampling methodologies used to estimate program improper payments;
- determined the extent and level of detail agencies reported on key improper payment reporting elements, including manager accountability, causes of improper payments, corrective actions, and statutory barriers;
- conducted an analysis of OMB's assessment criteria—exceeding $10 million in improper payments and 2.5 percent of program outlays—to identify programs that met only one of OMB's criteria and thus would not be required to estimate and report improper payment information based on these criteria alone;
- analyzed OIG-reported major management challenges for various programs and activities; and
- analyzed the amount of improper payments recouped through agencies' recovery audit activities.

We did not independently validate the data that agencies reported in their PARs or annual reports or the data that OMB reported. We are providing the agency-reported data as descriptive information that will inform interested parties about the magnitude of governmentwide improper payments and other related information. We believe the data to be sufficiently reliable for that purpose. We requested comments on a draft of this report from the Director of the Office of Management and Budget or his designee. Written comments were received from the Controller, OMB, dated October 26, 2006. OMB's comments are reprinted in appendix IV. We conducted our work from April 2006 through September 2006 in accordance with generally accepted government auditing standards.

Improper Payment Estimates Reported in Agency Fiscal Year 2004 and 2005 PARs or Annual Reports

Dollars in millions

	Department or agency		Program or activity	2004 Total estimate	2004 Error rate	2005 Total estimate	2005 Error rate	Previous OMB Circular No. A-11 reporting requirements
1.	Agency for International Development	1.	All programs and activities	0.0[a]	0.0[a]	0.0[a]	0.0[a]	
2.	Department of Agriculture	2.	Marketing Assistance Loan Program (previously Commodity Loan Programs)	0.0[a]	0.0[a]	45.0	0.7	X
		3.	Food Stamp Program	$1,400.0[b]	6.6[b]	1,432.0	5.9	X
		4.	School Programs[c]	0.0	0.0	0.0	0.0	X
		5.	Women, Infants, and Children[c]	0.0	0.0	0.0	0.0	X
		6.	Child and Adult Care Food Program[c]	0.0	0.0	0.0	0.0	
		7.	Wildland Fire Suppression Management	0.0[a]	0.0[a]	73.0	3.7	
		8.	Rental Assistance Program	20.0[b]	2.6[b]	27.0	3.2	
		9.	Federal Crop Insurance Corporation	125.0	5.0	28.0	0.9	
		10.	Farm Security and Rural Investment	0.0[a]	0.0[a]	16.0	1.6	
		11.	Milk Income Loss Contract Program	0.0[a]	0.0[a]	0.2	0.1	
		12.	Loan Deficiency Payments	0.0[a]	0.0[a]	5.0	1.0	
3.	Department of Commerce	13.	All programs and activities[d]	0.0	0.0	0.0	0.0	
4.	Department of Defense	14.	Military Retirement Fund	66.0[b]	0.2[b]	49.3	0.1	X
		15.	Military Health Benefits	99.6[b]	1.3[b]	150.0	2.0	X
		16.	Military Pay	0.0[a]	0.0[a]	432.0	0.6	
5.	Department of Education	17.	Student Financial Assistance—Pell Grants[e]	571.0[b]	4.5[b]	617.0	4.5	X
		18.	Student Financial Assistance—Federal Family Education Loan[e]	10.0[b]	0.2[b]	16.0	0.2	

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Dollars in millions

	Department or agency		Program or activity	2004 Total estimate	2004 Error rate	2005 Total estimate	2005 Error rate	Previous OMB Circular No. A-11 reporting requirements
		19.	Title I	0.0[a]	0.0[a]	149.0	1.2	X
6.	Department of Energy	20.	Payment programs	20.3	0.1	14.5	0.1	
7.	Environmental Protection Agency	21.	Clean Water State Revolving Funds	10.3	0.5	3.1	0.2	X
		22.	Drinking Water State Revolving Funds	0.0[f]	0.0[f]	0.0[f]	0.0[f]	X
8.	Export-Import Bank of the United States[g]	23.	All programs and activities	0.0	0.0	0.0	0.0	
9.	Farm Credit System Insurance Corporation[g]	24.	All programs and activities	0.0	0.0	0.0	0.0	
10.	Federal Communications Commission	25.	Universal Service Fund's Schools and Libraries[c]	0.0	0.0	0.0	0.0	
		26.	High Cost Support Program[c]	0.0	0.0	0.0	0.0	
11.	Federal Deposit Insurance Corporation[g]	27.	All programs and activities	0.0	0.0	0.0	0.0	
12.	General Services Administration	28.	All programs and activities[d]	0.0	0.0	0.0	0.0	
13.	Department of Health and Human Services	29.	Medicaid[c]	0.0	0.0	0.0	0.0	X
		30.	Medicare	21,700.0	10.1	12,100.0	5.2	X
		31.	Head Start	255.0	3.9	110.0	1.6	X
		32.	Temporary Assistance for Needy Families[c]	0.0	0.0	0.0	0.0	X
		33.	Foster Care—Title IV-E	186.0[b]	10.3[b]	182.0	10.0	X
		34.	State Children's Insurance Program[c]	0.0	0.0	0.0	0.0	X
		35.	Child Care and Development Fund[c]	0.0	0.0	0.0	0.0	X
14.	Department of Homeland Security	36.	All programs and activities[d]	0.0	0.0	0.0	0.0	
15.	Department of Housing and Urban Development	37.	Low Income Public Housing	356.0	10.4	326.0[h]	5.6	X

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Dollars in millions

	Department or agency		Program or activity	2004 Total estimate	2004 Error rate	2005 Total estimate	2005 Error rate	Previous OMB Circular No. A-11 reporting requirements
		38.	Section 8-Tenant Based	840.0	6.3	551.0[h]	0.0[f]	X
		39.	Section 8- Project Based	511.0	6.6	324.0[h]	0.0[f]	X
		40.	Community Development Block Grant (Entitlement Grants, States/Small Cities)[c]	0.0	0.0	0.0	0.0	X
		41.	Federal Housing Administration's Single Family Acquired Asset Management System	26.1	6.8	2.2	0.6	
		42.	Public Housing Capital Fund	0.0[a]	0.0[a]	133.5	5.1	
16.	Department of the Interior	43.	All programs and activities[d]	0.0	0.0	0.0	0.0	
17.	Department of Justice	44.	All programs and activities[d]	0.0	0.0	0.0	0.0	
18.	Department of Labor	45.	Unemployment Insurance	3,861.0	10.3	3,267.0	10.1	X
		46.	Federal Employees' Compensation Act	6.4	0.3	3.3	0.1	X
		47.	Workforce Investment Act	0.0[a]	0.0[a]	7.9	0.2	X
19.	National Aeronautics and Space Administration	48.	All programs and activities[d]	0.0	0.0	0.0	0.0	
20.	National Credit Union Administration[g]	49.	All programs and activities	0.0	0.0	0.0	0.0	
21.	National Science Foundation	50.	Research and Education Grants and Cooperative Agreements	4.4	0.1	1.1	0.0[i]	X
22.	Nuclear Regulatory Commission	51.	All programs and activities[d]	0.0	0.0	0.0	0.0	
23.	Office of Personnel Management	52.	Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)	197.7	0.4	152.2	0.3	X

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Dollars in millions

	Department or agency		Program or activity	2004 Total estimate	2004 Error rate	2005 Total estimate	2005 Error rate	Previous OMB Circular No. A-11 reporting requirements
		53.	Federal Employees Health Benefits Program	86.1	0.3	196.5	0.7	X
		54.	Federal Employees Group Life Insurance	2.1	0.2	2.0	0.2	X
24.	Pension Benefit Guaranty Corporation[g]	55.	All programs and activities	0.0	0.0	0.0	0.0	
25.	U.S. Postal Service[g]	56.	All programs and activities	0.0	0.0	0.0	0.0	
26.	Railroad Retirement Board	57.	Retirement and Survivors Benefits	147.9[b]	1.6[b]	150.6	1.6	X
		58.	Railroad Unemployment Insurance Benefits	2.6[b]	2.1[b]	2.3	2.1	X
27.	Securities and Exchange Commission	59.	All programs and activities[d]	0.0	0.0	0.0	0.0	
28.	Small Business Administration	60.	7(a) Business Loan Program	0.0[a]	0.0[a]	31.4	5.2	X
		61.	504 Certified Development Companies	0.0[a]	0.0[a]	0.0[a]	0.0[a]	X
		62.	Disaster Assistance	1.1	0.1	1.6	0.1	X
		63.	Small Business Investment Companies	129.0	4.7	10.5	0.7	X
29.	Smithsonian Institution[g]	64.	All programs and activities	0.0	0.0	0.0	0.0	
30.	Social Security Administration	65.	Old Age and Survivors' Insurance	1,707.0	0.3	3,681.0	0.7	X
		66.	Disability Insurance	0.0[f]	0.0[f]	0.0[f]	0.0[f]	X
		67.	Supplemental Security Income Program	2,639.0	7.3	2,910.0	7.7	X
31.	Department of State	68.	International Narcotic and Law Enforcement Affairs-Narcotics Program	1.7	0.9	0.6	0.0[i]	
		69.	International Information Program-U.S. Speaker and Specialist Program	1.4	81.2	1.9	81.2	

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Dollars in millions

	Department or agency		Program or activity	2004 Total estimate	2004 Error rate	2005 Total estimate	2005 Error rate	Previous OMB Circular No. A-11 reporting requirements
		70.	Vendor payments	0.8	2.0	0.4	0.0[i]	
		71.	Structures and Equipment	0.3[b]	4.0[b]	0.2	0.0[i]	
32.	Tennessee Valley Authority	72.	Payment programs	8.1	0.0[i]	36.3	0.5	
33.	Department of Transportation	73.	Airport Improvement Program	0.0[j]	0.0[j]	0.0[j]	0.0[j]	X
		74.	Highway Planning and Construction	0.0[j]	0.0[j]	0.0[j]	0.0[j]	X
		75.	Federal Transit—Capital Investment Grants	0.0[j]	0.0[j]	0.0[j]	0.0[j]	X
		76.	Federal Transit—Formula Grants	0.0[j]	0.0[j]	0.0[j]	0.0[j]	X
34.	Department of the Treasury	77.	Earned Income Tax Credit	10,300.0[b]	25.5[b]	10,500.0	25.5	X
35.	Department of Veterans Affairs	78.	Compensation	302.4[b]	1.2[b]	322.9	1.1	X
		79.	Dependency and Indemnity Compensation	0.0[f]	0.0[f]	0.0[f]	0.0[f]	X
		80.	Education programs	70.0[b]	3.0[b]	64.0	2.4	
		81.	Pension	280.7[b]	8.3[b]	261.0	7.9	X
		82.	Insurance programs	0.3[b]	0.0[b,i]	0.3	0.0[i]	X
		83.	Loan Guaranty	6.3	0.5	4.2	0.4	
		84.	Vocational Rehabilitation	9.5	1.7	9.8	1.6	
	Total			**$45,962.1**		**$38,404.8**		**46**

Source: GAO analysis of cited agencies' fiscal year 2005 PARs or annual reports.

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

[b]Fiscal year 2004 estimates or error rates were updated to the revised estimates reported in the fiscal year 2005 PARs.

[c]See table 5 of this report.

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

[e]Student Financial Assistance—Pell Grants and Federal Family Education Loan are combined together as Student Financial Assistance in OMB Circular No. A-11, former section 57.

[f]Agency combined with the above program.

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

[h]An additional $266 million of improper payments exist for these three programs. In its PAR, the Department of Housing and Urban Development (HUD) did not provide a breakout of this amount among the three programs.

[i]Agency reported error rate was less than 1 percent or reported error rate rounded to zero for purposes of this report.

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

Outlays, Improper Payment Estimates, and Error Rates Reported in Agency Fiscal Year 2005 PARs or Annual Reports

Dollars in millions

	Department or agency		Program or activity	Program outlays	Total estimate	Error rate	Overpayment Estimate	Overpayment Error rate	Underpayment Estimate	Underpayment Error rate
1.	Agency for International Development	1.	All programs and activities	$8,275.5[a]	0.0[b]	0.0[b]	0.0[b]	0.0[b]	0.0[b]	0.0[b]
2.	Department of Agriculture	2.	Marketing Assistance Loan Program (previously Commodity Loan Programs)	6,400.0	45.0	0.7	45.0	0.7	0.0[c]	0.0[c]
		3.	Food Stamp Program	24,358.0	1,432.0[d]	5.9	1,091.2	4.5	341.0	1.4
		4.	School Programs[e]	8,187.0	0.0	0.0	0.0	0.0	0.0	0.0
		5.	Women, Infants, and Children[e]	4,812.0	0.0	0.0	0.0	0.0	0.0	0.0
		6.	Child and Adult Care Food Program[e]	2,061.0	0.0	0.0	0.0	0.0	0.0	0.0
		7.	Wildland Fire Suppression Management	1,980.0	73.0[d]	3.7	55.2	2.8	18.0	0.9
		8.	Rental Assistance Program	846.0	27.0	3.2	17.5	2.1	9.5	1.1
		9.	Federal Crop Insurance Corporation	3,170.0	28.0[f]	0.9[f]	0.0	0.0	0.0	0.0
		10.	Farm Security and Rural Investment	1,027.0	16.0[d]	1.6	14.8	1.4	1.1	0.1
		11.	Milk Income Loss Contract Program	245.0	0.2	0.1	0.2	0.1	0.0[c]	0.0[c]
		12.	Loan Deficiency Payments	453.0	5.0	1.0	5.0	1.0	0.0[c]	0.0[c]
3.	Department of Commerce	13.	All programs and activities[g]	9,126.8[a]	0.0	0.0	0.0	0.0	0.0	0.0
4.	Department of Defense	14.	Military Retirement Fund	35,700.0	49.3[f]	0.1[f]	0.0	0.0	0.0	0.0
		15.	Military Health Benefits	7,500.0	150.0[f]	2.0[f]	0.0	0.0	0.0	0.0
		16.	Military Pay	69,100.0	432.0[f]	0.6[f]	0.0	0.0	0.0	0.0

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Dollars in millions

							Overpayment		Underpayment	
	Department or agency		Program or activity	Program outlays	Total estimate	Error rate	Estimate	Error rate	Estimate	Error rate
5.	Department of Education	17.	Student Financial Assistance—Pell Grants[h]	12,602.0	617.0[f]	4.5[f]	0.0	0.0	0.0	0.0
		18.	Student Financial Assistance—Federal Family Education Loan[h]	10,085.0	16.0[f]	0.2[f]	0.0	0.0	0.0	0.0
		19.	Title I	12,520.0	149.0[f]	1.2[f]	0.0	0.0	0.0	0.0
6.	Department of Energy	20.	Payment programs	24,114.0	14.5[f]	0.1[f]	0.0	0.0	0.0	0.0
7.	Environmental Protection Agency	21.	Clean Water State Revolving Funds	1,900.0	3.1[f]	0.2[f]	0.0	0.0	0.0	0.0
		22.	Drinking Water State Revolving Fund	0.0[i]	0.0[i]	0.0[i]	0.0[i]	0.0[i]	0.0[i]	0.0[i]
8.	Export-Import Bank of the United States[j]	23.	All programs and activities	1,329.0[k]	0.0	0.0	0.0	0.0	0.0	0.0
9.	Farm Credit System Insurance Corporation[j]	24.	All programs and activities	40.0[a]	0.0	0.0	0.0	0.0	0.0	0.0
10.	Federal Communications Commission	25.	Universal Service Fund's Schools and Libraries[e]	1,700.0	0.0	0.0	0.0	0.0	0.0	0.0
		26.	High Cost Support Program[e]	3,800.0	0.0	0.0	0.0	0.0	0.0	0.0
11.	Federal Deposit Insurance Corporation[j]	27.	All programs and activities	2,206.0[k]	0.0	0.0	0.0	0.0	0.0	0.0
12.	General Services Administration	28.	All programs and activities[g]	20,274.0[a]	0.0	0.0	0.0	0.0	0.0	0.0
13.	Department of Health and Human Services	29.	Medicaid[e]	181,719.0	0.0	0.0	0.0	0.0	0.0	0.0
		30.	Medicare	234,100.0	12,100.0	5.2	11,200.0	4.8	900.0	0.4
		31.	Head Start	6,865.0	110.0[f]	1.6[f]	0.0	0.0	0.0	0.0
		32.	Temporary Assistance for Needy Families[e]	17,401.0	0.0	0.0	0.0	0.0	0.0	0.0
		33.	Foster Care—Title IV-E	1,816.0	182.0[f]	10.0[f]	0.0	0.0	0.0	0.0

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Dollars in millions

							Overpayment		Underpayment	
	Department or agency		**Program or activity**	**Program outlays**	**Total estimate**	**Error rate**	**Estimate**	**Error rate**	**Estimate**	**Error rate**
		34.	State Children's Insurance Program[e]	5,129.0	0.0	0.0	0.0	0.0	0.0	0.0
		35.	Child Care and Development Fund[e]	4,901.0	0.0	0.0	0.0	0.0	0.0	0.0
14.	Department of Homeland Security	36.	All programs and activities[g]	53,175.0[a]	0.0	0.0	0.0	0.0	0.0	0.0
15.	Department of Housing and Urban Development	37.	Low Income Public Housing	26,069.0	326.0[l]	5.6	173.2	0.0	68.9	0.0
		38.	Section 8- Tenant Based	0.0[i]	551.0[l]	0.0[i]	366.5	0.0	154.7	0.0
		39.	Section 8- Project Based	0.0[i]	324.0[l]	0.0[i]	141.8	0.0	82.8	0.0
		40.	Community Development Block Grant (Entitlement Grants, States/Small Cities)[e]	4,987.0	0.0	0.0	0.0	0.0	0.0	0.0
		41.	Federal Housing Administration's Single Family Acquired Asset Management System	366.7	2.2[f]	0.6[f]	0.0	0.0	0.0	0.0
		42.	Public Housing Capital Fund	2,600.0	133.5	5.1	118.1	4.5	15.4	0.6
16.	Department of the Interior	43.	All programs and activities[g]	19,794.3[a]	0.0	0.0	0.0	0.0	0.0	0.0
17.	Department of Justice	44.	All programs and activities[g]	29,244.2[a]	0.0	0.0	0.0	0.0	0.0	0.0
18.	Department of Labor	45.	Unemployment Insurance	32,248.0	3,267.0	10.1	3,051.0	9.5	216.0	0.7
		46.	Federal Employees' Compensation Act	2,519.0	3.3[f]	0.1[f]	0.0	0.0	0.0	0.0
		47.	Workforce Investment Act	3,743.0	7.9[f]	0.2[f]	0.0	0.0	0.0	0.0

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Dollars in millions

	Department or agency		Program or activity	Program outlays	Total estimate	Error rate	Overpayment Estimate	Overpayment Error rate	Underpayment Estimate	Underpayment Error rate
19.	National Aeronautics and Space Administration	48.	All programs and activities[g]	16,472.0[a]	0.0	0.0	0.0	0.0	0.0	0.0
20.	National Credit Union Administration[j]	49.	All programs and activities	159.0[k]	0.0	0.0	0.0	0.0	0.0	0.0
21.	National Science Foundation	50.	Research and Education Grants and Cooperative Agreements	4,215.0	1.1	0.0[f,m]	0.0	0.0	0.0	0.0
22.	Nuclear Regulatory Commission	51.	All programs and activities[g]	651.4[a]	0.0	0.0	0.0	0.0	0.0	0.0
23.	Office of Personnel Management	52.	Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)	54,800.0	152.2	0.3	147.1	0.3	5.1	0.0[m]
		53.	Federal Employees Health Benefits Program	29,400.0	196.5	0.7	190.9	0.7	5.6	0.0[m]
		54.	Federal Employees Group Life Insurance	1,200.0	2.0	0.2	0.7	0.1	1.3	0.1
24.	Pension Benefit Guaranty Corporation[j]	55.	All programs and activities	5,489.0[k]	0.0	0.0	0.0	0.0	0.0	0.0
25.	U.S. Postal Service[j]	56.	All programs and activities	72,619.0[k]	0.0	0.0	0.0	0.0	0.0	0.0
26.	Railroad Retirement Board	57.	Retirement and Survivors Benefits	9,185.4	150.6[f]	1.6[f]	0.0	0.0	0.0	0.0
		58.	Railroad Unemployment Insurance Benefits	110.8	2.3[f]	2.1[f]	0.0	0.0	0.0	0.0
27.	Securities and Exchange Commission	59.	All programs and activities[g]	866.7[a]	0.0	0.0	0.0	0.0	0.0	0.0
28.	Small Business Administration	60.	7(a) Business Loan Program	605.1	31.4[f]	5.2[f]	0.0	0.0	0.0	0.0

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Dollars in millions

	Department or agency		Program or activity	Program outlays	Total estimate	Error rate	Overpayment Estimate	Overpayment Error rate	Underpayment Estimate	Underpayment Error rate
		61.	504 Certified Development Companies	117.6	0.0[b]	0.0[b]	0.0[b]	0.0[b]	0.0[b]	0.0[b]
		62.	Disaster Assistance	2,230.5	1.6[f]	0.1[f]	0.0	0.0	0.0	0.0
		63.	Small Business Investment Companies	1,568.2	10.5[f]	0.7[f]	0.0	0.0	0.0	0.0
29.	Smithsonian Institution[j]	64.	All programs and activities	784.0[k]	0.0	0.0	0.0	0.0	0.0	0.0
30.	Social Security Administration	65.	Old Age and Survivors' Insurance	493,300.0	3,681.0	0.7	2,582.0	0.5	1,099.0	0.2
		66.	Disability Insurance	0.0[i]	0.0[i]	0.0[i]	0.0[i]	0.0[i]	0.0[i]	0.0[i]
		67.	Supplemental Security Income Program	37,470.0	2,910.0	7.7	2,406.0	6.4	504.0	1.3
31.	Department of State	68.	International Narcotic and Law Enforcement Affairs-Narcotics Program	114.0	0.6[f]	0.0[f,m]	0.0	0.0	0.0	0.0
		69.	International Information Program-U.S. Speaker and Specialist Program	41.0	1.9[f]	81.2[f]	0.0	0.0	0.0	0.0
		70.	Vendor payments	3,299.0	0.4[f]	0.0[f,m]	0.0	0.0	0.0	0.0
		71.	Structures and Equipment	485.0	0.2[f]	0.0[f,m]	0.0	0.0	0.0	0.0
32.	Tennessee Valley Authority	72.	Payment programs	7,080.0	36.3[f]	0.5[f]	0.0	0.0	0.0	0.0
33.	Department of Transportation	73.	Airport Improvement Program	2,996.0	0.0[c,f]	0.0[c,f]	0.0	0.0	0.0	0.0
		74.	Highway Planning and Construction	31,217.0	0.0[c,f]	0.0[c,f]	0.0	0.0	0.0	0.0
		75.	Federal Transit—Capital Investment Grants	3,375.0	0.0[c,f]	0.0[c,f]	0.0	0.0	0.0	0.0
		76.	Federal Transit—Formula Grants	4,521.0	0.0[c,f]	0.0[c,f]	0.0	0.0	0.0	0.0

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Dollars in millions

	Department or agency		Program or activity	Program outlays	Total estimate	Error rate	Overpayment Estimate	Overpayment Error rate	Underpayment Estimate	Underpayment Error rate
34.	Department of the Treasury	77.	Earned Income Tax Credit	41,300.0	10,500.0[f]	25.5[f]	0.0	0.0	0.0	0.0
35.	Department of Veterans Affairs	78.	Compensation	28,960.0	322.9	1.1	181.0	0.6	141.9	0.5
		79.	Dependency and Indemnity Compensation	0.0[i]	0.0[i]	0.0[i]	0.0[i]	0.0[i]	0.0[i]	0.0[i]
		80.	Education programs	2,661.0	64.0	2.4	34.0	1.3	30.0	1.1
		81.	Pension	3,293.0	261.0	7.9	247.0	7.5	14.0	0.4
		82.	Insurance programs	1,664.0	0.3[f]	0.0[f,m]	0.0	0.0	0.0	0.0
		83.	Loan Guaranty	1,219.0	4.2[f]	0.4[f]	0.0	0.0	0.0	0.0
		84.	Vocational Rehabilitation	603.0	9.8	1.6	2.7	0.4	7.1	1.2
	Total			**$1,764,560.2**	**$38,404.8**		**$22,070.9[n]**		**$3,615.4[n]**	

Sources: GAO analysis of cited agencies' fiscal year 2005 PARs or annual reports and OMB.

[a]This number is the disbursements from the agencies' statements of budgetary resources in their fiscal year 2005 PARs or annual reports.

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

[c]Agency reported that the annual improper payment amount was zero.

[d]The reported overpayments plus the reported underpayments do not equal the reported total improper payments.

[e]See table 5 of this report.

[f]Agency did not provide an estimate breakout between both overpayments and underpayments.

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

[h]Student Financial Assistance—Pell Grants and Federal Family Education Loan are combined together as Student Financial Assistance in OMB Circular No. A-11, former section 57.

[i]Agency combined with the above program.

[j]Agency did not address improper payments or IPIA.

[k]Agency program outlays were not reported in the fiscal year 2005 PARs. We obtained these amounts from OMB.

[l]An additional $266 million of improper payments exist for these three programs. In its PAR, HUD did not provide a breakout of this amount among the three programs. The $266 million is also excluded from the overpayment and underpayment estimates.

[m]Agency reported error rate was less than 1 percent or reported the error rate rounded to zero for the purposes of this report.

[n]The overpayments plus the underpayments do not add up total improper payments because many of the programs did not provide a breakout of their total improper payment estimate between overpayments and underpayments.

Comments from the Office of Management and Budget

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE CONTROLLER

OCT 26 2006

Mr. McCoy Williams
Director, Financial Management and Assurance
U.S. Government Accountability Office
440 G Street, NW
Washington, DC 20548

Dear Mr. Williams:

Thank you for the opportunity to comment on the Government Accountability Office's (GAO's) draft report entitled "Improper Payments: Agencies' Fiscal Year 2005 Reporting Under the Improper Payments Information Act Remains Incomplete," GAO-07-92.

In general, the Office of Management and Budget (OMB) agrees with your assessment that challenges remain in meeting the goals of the Improper Payment Information Act of 2002 (IPIA), and we are continuing our work to ensure that government-wide efforts can ultimately reflect the full scope of improper payments across the Executive Branch. However, we also believe that significant actions have already occurred that are not prominent in this report, demonstrating that (1) efforts underway are moving the Executive Branch to full reporting under IPIA and (2) efforts to reduce improper payments are working. We welcome this opportunity to summarize these actions.

To begin, government-wide reporting of improper payments has shown significant improvement since the first full year of reporting under IPIA which occurred with the fiscal year (FY) 2004 Performance and Accountability Reports (PAR). For example:

- 85% of high risk programs now report an error measurement ($1.3 trillion of $1.5 trillion in high risk programs).
- In FY 2004, only 30 programs were reported in agencies' annual PARs, while in FY 2005, 47 additional programs reported improper payment measurement results, an increase of 17. This number will increase again in FY 2006 by an estimated ten programs.

Our success in increasing the number of programs reporting improper payments is similar to the success the government is having in reducing improper payments. For example:

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- The overall dollar amount of improper payments for the 30 programs reported in FY 2004 decreased 17% from $45.1 billion to $37.3 billion.
- Medicare substantially improved its claim documentation and reduced its error rate reporting in the Fee for Service portion of the program from 10.1% in FY 2004 to 5.2% in FY 2005.
- Food Stamps reported its lowest error rate ever in FY 2005 (5.88%).
- Unemployment Insurance decreased improper payments by $600 million from FY 2004 to FY 2005.
- The Department of Housing & Urban Development's Public Housing and Rental Assistance programs have reduced improper payments by more than $1 billion since FY 2000.
- Only a handful of agencies reported on their recovery auditing activities in their FY 2004 PARs; in FY 2005 an additional 19 agencies reported on their recovery auditing efforts, and several agencies have plans to expand these efforts to more contract categories for FY 2006 reporting.

We fully expect that these trends of reporting more programs and reducing improper payments will continue. In fact, in FY 2005, OMB launched a separate initiative under the President's Management Agenda to hold agencies accountable for both improving improper payment measurements and initiating corrective actions to eliminate payment errors.

As we chart a course forward, we recognize that alternative strategies need to be considered in order to advance the overall improper payment initiative. Permitting alternative strategies is a flexibility that OMB believes is necessary to support government-wide IPIA compliance, particularly for programs that have never been able to report a payment error rate. Appendix C to OMB Circular A-123 still requires that all high risk programs report a statistically valid rate, but not necessarily within one year.

For example, beginning with the FY 2007 PAR reporting, Medicaid, Temporary Assistance to Needy Families, and the State Children's Health Insurance Program will begin reporting component error rates. For FY 2008 reporting, we project that these programs will report a statistically valid national error estimate. Therefore, by permitting some variation, more programs are able to report sooner on some form of error rate and dollar amount. This is a significant improvement over FY 2004 reporting. While there are a few large programs without current error measurements being reported, we are progressively moving towards full reporting.

GAO continues to express concern that OMB's use of reporting threshold criteria ($10 million and 2.5 percent error rate) limits agency review and reporting of improper payments. We can appreciate GAO's concern that this criterion limits reporting; however, our specific rationale for adding the 2.5 percent requirement was not highlighted in the report, and further explanation and understanding of the 2.5 percent requirement may alleviate some of GAO's concern. Specifically, since the implementation of IPIA and OMB's guidance M-03-13, all programs originally listed in Section 57 of OMB Circular A-11 were automatically determined to be risk susceptible

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and were therefore required to be reported upon annually in agency PARs. OMB included the 2.5 percent as part of its threshold criteria for determining risk, to ensure that agencies were focusing their resources on programs with the highest levels of risk for improper payments. Most notably, even with the 2.5 percent threshold in place, Federal agencies deemed more than 60% of all outlays (or $1.5 trillion) as high risk. Further, an additional $300 billion in outlays are being tracked under the Recovery Audit Act. For the remaining outlays, OMB is now requiring agencies to track any programs that are discovered to have a high risk for significant improper payment, but an error rate less than 2.5 percent. With these facts, we believe our framework is appropriately mitigating the risk that high risk programs will be left out of our IPIA reporting activities.

Below are OMB's specific responses to the four recommendations included in the draft report:

Regarding the first recommendation to expand the IPIA implementing guidance to describe in greater detail (a) factors that agencies should consider when conducting their annual risk assessments and (b) factors that agencies should use when reporting improper payments in their PARs, OMB agrees with both recommendations and has taken steps to implement them. In our revised implementation guidance for IPIA (OMB Circular A-123, Appendix C) issued in August of 2006, we included factors to be considered in agency risk assessments. Additionally, OMB lists the requirements for agency PAR IPIA reporting in OMB Circular A-136, *Financial Report Requirements*, Section II.5.6., IPIA Reporting Details.

Regarding the second recommendation to enforce existing guidance requiring agencies to use a statistically valid sampling methodology to calculate improper payment estimates, OMB generally agrees with the recommendation and believes that our actions to date reflect this approach for the most part. However, we believe that allowing alternative sampling methodologies, prior to a full statistically valid sample, is acceptable as long as the alternative is used as an interim error measurement on a path toward a more comprehensive statistical estimate. This method is discussed in OMB Circular A-123, Appendix C and is a method OMB has been working with agencies on for a number of years. It recognizes that a single approach is not feasible for many large, complex programs, such as the Earned Income Tax Credit and the National School Lunch and Breakfast programs and ensures that such programs have interim information on payment errors so that targeted corrective actions could be defined and initiated in the short term, rather than waiting until a more comprehensive rate was in place. In most cases, a statistically valid and comprehensive sampling methodology will be achieved within two to three years.

Regarding the third recommendation to gather from agencies the dollar amount of payments that agencies make under statute or judicial determinations that later are determined to be overpayments to determine the magnitude of the issue and whether additional reporting is warranted, OMB generally agrees with the recommendation. As you know, agencies such as the Social Security Administration in their Supplemental Security Income program are required to continue making benefit payments while a

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termination of benefits is being appealed. Once the adjudication is made, if it is determined that benefits should have ceased at the original date of termination, the payments made subsequent to the appeal are immediately entered as a receivable, and the beneficiary is responsible for repayment of the debt. This type of situation does not fall under the statutory definition of an improper payment. We believe that in the near term, agencies should concentrate on obtaining national error estimates for programs that do not yet report an error rate, and implementing corrective action plans that reduce improper payments.

Regarding the fourth recommendation to require agencies to include their rationale for any determination that recovery audit efforts are not cost beneficial, OMB agrees with the recommendation. We will plan to include wording to this effect when we update Circular A-136 during FY 2007.

Again, we want to thank GAO for the opportunity to comment on this draft report. We look forward to our continuing work in the area of improving the accuracy and integrity of Federal payments.

Sincerely,

Linda M. Combs
Controller

GAO Contact and Staff Acknowledgments

GAO Contact

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In addition to the contact named above, Carla Lewis, Assistant Director; Sharon Byrd; Francine DelVecchio; Francis Dymond; Lisa M. Galvan; Jacquelyn Hamilton; James Maziasz; Christina Quattrociocchi; Donell Ries; and Autumn Schmid made important contributions to this report.

Related GAO Products

Improper Payments: Federal and State Coordination Needed to Report National Improper Payment Estimates on Federal Programs. GAO-06-347. Washington, D.C.: April 14, 2006.

Financial Management: Challenges Continue in Meeting Requirements of the Improper Payments Information Act. GAO-06-581T. Washington, D.C.: April 5, 2006.

Financial Management: Challenges Remain in Meeting Requirements of the Improper Payments Information Act. GAO-06-482T. Washington, D.C.: March 9, 2006.

Financial Management: Challenges in Meeting Governmentwide Improper Payment Requirements. GAO-05-907T. Washington, D.C.: July 20, 2005.

Financial Management: Challenges in Meeting Requirements of the Improper Payments Information Act. GAO-05-605T. Washington, D.C.: July 12, 2005.

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