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Testimony

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FINANCIAL  
MANAGEMENT

Challenges in Meeting  
Requirements of the  
Improper Payments  
Information Act

Statement of McCoy Williams  
Director, Financial Management and Assurance





Highlights of [GAO-05-605T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, and International Security, Committee on Homeland Security and Governmental Affairs, United States Senate

### Why GAO Did This Study

Improper payments are a longstanding, widespread, and significant problem in the federal government. The Congress enacted the Improper Payments Information Act (IPIA) of 2002 to address this issue. Fiscal year 2004 marked the first year that federal agencies governmentwide were required to report improper payment information under IPIA. One result of the IPIA has been increased visibility over improper payments by requiring federal agencies to identify programs and activities susceptible to improper payments, estimate the amount of their improper payments, and report on the amount of and their actions to reduce their improper payments in their annual Performance and Accountability Reports (PAR).

Because of continued interest in addressing the governmentwide improper payments issue, we continue to report on the progress being made by agencies in complying with certain requirements of the IPIA. My testimony today summarizes the results of our most recent report on agencies' progress in meeting the requirements of the IPIA. Ultimately, the success of this legislation hinges on each agency's diligence and commitment to identifying, estimating, and determining the causes of, then taking corrective actions, and measuring progress in reducing improper payments.

[www.gao.gov/cgi-bin/getrpt?GAO-05-605T](http://www.gao.gov/cgi-bin/getrpt?GAO-05-605T).

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-6906 or [williamsm1@gao.gov](mailto:williamsm1@gao.gov).

## FINANCIAL MANAGEMENT

# Challenges in Meeting Requirements of the Improper Payments Information Act

### What GAO Found

The Office of Management and Budget (OMB) has continued to provide strong emphasis on IPIA through the President's Management Agenda, and federal agencies' response to fulfilling the requirements of the IPIA has generally been positive. To date, the federal government has made progress in identifying programs susceptible to the risk of improper payments in addressing the new IPIA requirements. At the same time, our review of the fiscal year 2004 PARs for 29 of 35 federal agencies that the U.S. Treasury determined to be significant to the U.S. government's consolidated financial statements, shows that even with the enhanced emphasis on improper payment reporting fueled by the new legislation, certain agencies reported that they have not yet performed risk assessments of all their programs and/or estimated improper payments for their respective programs.

As fully anticipated, the number of agencies reporting improper payment information is growing, but the magnitude of the problem remains unknown, because some agencies have not yet prepared estimates of improper payments for all of their programs. In the 29 agency PARs included in GAO's fiscal year 2004 review, 17 agencies reported over \$45 billion of improper payments in 41 programs. This represented almost a \$10 billion, or 27 percent, increase in the amount of improper payments reported by agencies in fiscal year 2003. This increase was primarily attributable to changes in the method for estimating and reporting improper payment amounts in one major program, Medicare. Future estimates are likely to trend higher because agencies' governmentwide estimate did not report for 12 programs with outlays of \$248.7 billion in fiscal year 2004. These 12 were previously required to annually report improper payments under OMB Circular No. A-11 during the past 3 years. This included some of the largest risk-susceptible federal programs, such as the Department of Health and Human Services' Medicaid Program, with outlays exceeding \$175 billion annually, or the Department of Education's Title I Program, with outlays of over \$10 billion annually.

**Number of Agencies and Amounts of Improper Payments Reported (Fiscal Years 1999-2004)**

Fiscal year	Agencies reporting improper payments <sup>a</sup>	Reported amounts of improper payments (in billions)
1999	8	\$20.7
2000	8	\$19.6
2001	8	\$20.9
2002	7	\$19.5
2003	13	\$35.7
2004	17	\$45.4

Source: GAO.

<sup>a</sup> Other agencies acknowledged making improper payments in their PARs but did not disclose dollar amounts.

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the governmentwide problem of improper payments in federal programs and activities. Our work over the past several years has demonstrated that while improper payments are a significant and widespread problem in the federal government, 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 in their Performance and Accountability Reports (PAR).

Fiscal year 2004 marked the first year that federal agencies governmentwide were required to report improper payment information under the Improper Payments Information Act of 2002 (IPIA).<sup>1</sup> The IPIA has increased visibility over improper payments to a higher, more appropriate level of importance by requiring executive agency heads, based on guidance<sup>2</sup> from the Office of Management and Budget (OMB), to identify programs and activities susceptible to significant improper payments, estimate amounts improperly paid, and report on the amount of and their actions to reduce their improper payments.

Because of continued interest in addressing the governmentwide improper payments issue, we continue to report on the progress being made by agencies in complying with certain requirements of the IPIA. In my testimony today, which is based on our March 31, 2005 report,<sup>3</sup> I will discuss (1) the extent to which agencies have performed the required assessments to identify programs and activities that are susceptible to significant improper payments and (2) the annual amount of improper payments estimated by the reporting agencies.

To obtain information for our March 2005 report, we conducted a review of improper payment information reported by agencies in their fiscal year 2004 PARs. We further reviewed OMB guidance on implementation of the IPIA and its report on the results of agency-specific reports, significant

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<sup>1</sup>Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

<sup>2</sup>OMB Memorandum M-03-13, "Improper Payments Information Act of 2002" (Public Law 107-300), May 21, 2003.

<sup>3</sup>GAO, *Financial Management: Challenges in Meeting Requirements of the Improper Payments Act*, [GAO-05-417](#) (Washington, D.C.: Mar. 31, 2005).

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findings, agency accomplishments, and remaining challenges. We did not assess the effectiveness of the agencies' efforts or independently validate the data that they or OMB reported. We conducted our work from November 2004 through February 2005 in accordance with U.S. generally accepted government auditing standards.

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## Background

Before I discuss our review of the fiscal year 2004 PARs, I would like to summarize the IPIA. The act, passed in November of 2002, requires agency heads to review all 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 submit those estimates to the Congress before March 31 of the following year. The act further requires that for programs for which estimated improper payments exceed \$10 million, agencies 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 federal agencies to use in implementing it. OMB issued guidance in May 2003 requiring 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. 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, the IPIA and related OMB guidance require each agency to report the results of its improper payment efforts for fiscal years ending on or after September 30, 2004. OMB guidance requires the results to be reported in the Management Discussion and Analysis (MD&A) section of its PAR.

Working with the Chief Financial Officer Council's Improper Payments Committee, OMB issued a standardized format on July 22, 2004 for reporting IPIA information. To satisfy the reporting requirements of the IPIA for fiscal year 2004, the framework instructed agencies to provide in the MD&A portion of the fiscal year 2004 PAR a brief summary of both what they have accomplished and what they plan to accomplish. All other required reporting details were to be included in an appendix to the PAR. The framework for the information reported in the appendix incorporates

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the requirements set forth in the law and further illustrates the reporting format required in OMB's implementation guidance.

The fiscal year 2004 PARs, the first set of reports representing the results of agency assessments of improper payments for all federal programs, was due November 15, 2004.<sup>4</sup> In our December 2004 report on the U.S. government's consolidated financial statements for the fiscal years ended September 30, 2004 and 2003, which includes our associated opinion on internal control, we reported that while most agencies acknowledged the IPIA reporting requirements in their PARs, they did not always indicate whether they had completed agencywide assessments, and they did not estimate improper payments for all of their susceptible programs.

I will now discuss the extent to which agencies performed the assessments of their programs and activities.

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## Progress Made but Challenges Remain in Addressing Key Requirements of the Act

We reviewed the fiscal year 2004 PARs for 29 of 35 federal agencies<sup>5</sup> that the U.S. Treasury determined to be significant to the U.S. government's consolidated financial statements. Overall, we found that agencies made progress in identifying programs susceptible to the risk of improper payments. At the same time, our findings suggest that even with the enhanced emphasis on improper payment reporting, certain agencies have not yet performed risk assessments of all their programs and/or estimated improper payments for their respective programs. Furthermore, as shown in table 1, we found that certain agencies required by OMB in years before enactment of the act,<sup>6</sup> to report selected improper payment information for

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<sup>4</sup>For fiscal year 2004, OMB accelerated the financial statements reporting date for agencies to Nov. 15, 2004.

<sup>5</sup>See *Treasury Financial Manual*, vol. 1, part 2, ch. 4700, for a list of the 35 agencies. Six of the 35 agencies had not issued PARs as of our fiscal year 2004 audit report on the U.S. government's consolidated financial statements; therefore, these agencies were not included in our review.

<sup>6</sup>Prior to the governmentwide IPIA reporting requirements beginning with fiscal year 2004, OMB's Circular No. A-11, Section 57 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, 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.

the past 3 years, had not performed much better than agencies that reported for the first time in fiscal year 2004.

**Table 1: Summary of Improper Payments Information Reported in Agency Fiscal Year 2004 PARs**

Agency type	Agencies reported they had assessed all programs	Agencies reported they had <i>not</i> assessed all programs	Total number of agencies	Programs that estimated improper payments	Programs that did <i>not</i> estimate improper payments	Total number of programs
Agencies with prior reporting requirements under OMB Circular No. A-11	12	3	15	34	12	46
Agencies with no prior reporting requirements	11	3	14	7	17 <sup>a</sup>	24
<b>Total</b>	<b>23</b>	<b>6</b>	<b>29</b>	<b>41</b>	<b>29</b>	<b>70</b>

Source: GAO's analysis of agencies' fiscal year 2004 PARs.

<sup>a</sup>For 10 of 17 programs, agencies reported their programs were not susceptible to significant improper payments.

As the table shows, there were no significant differences in terms of not meeting key requirements of the act between the two agency reporting categories. Specifically, we found that six agencies which had not performed risk assessments for all programs were equally divided among the agencies with prior reporting requirements and agencies with no previous reporting requirements. Although a majority of the agencies had performed risk assessments to identify programs and activities susceptible to significant improper payments, the adequacy of the risk assessments was questionable. For example, three agency auditors cited agency noncompliance with the IPIA in their annual reports included in the agency PARs. Two agency auditors reported that their agency's risk assessment did not consider all payment types or programs. The remaining auditor reported the agency did not institute a systematic method of reviewing all programs and identifying those it believed were susceptible to significant erroneous payments. In all 3 instances, agencies reported having assessed all programs and that the programs were not susceptible to significant improper payments.

We also found that of the 29 agency programs that did not report improper payment estimates, 12 programs had prior reporting requirements

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compared to 17 programs with no prior reporting requirements. Because the 12 agency programs were required to estimate improper payments information for the past 3 years, we believe these programs had sufficient time to estimate their improper payments and should have been in a position to fully comply with the requirements of the act. I will discuss these 12 programs further in the next section and highlight additional information in table 2.

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## Magnitude of Improper Payments is Still Unknown

The magnitude of the governmentwide improper payment problem is still unknown because, in addition to not assessing all programs, the agencies had not yet prepared estimates of significant improper payments for all of the programs. Specifically, of the 29 agency PARs included in our fiscal year 2004 review, only 17 agencies reported improper payment estimates totaling more than \$45 billion for 41 programs. Although this estimate increased about \$10 billion, or 27 percent from the prior fiscal year, we determined that this increase was primarily attributable to changes in the method for estimating and reporting improper payment amounts in the Department of Health and Human Services' Medicare Program.

I would also like to point out that the governmentwide estimate did not include the 12 programs with prior improper payment reporting requirements which totaled \$248.7 billion in outlays for fiscal year 2004. As shown in table 2, these included some of the largest federal programs determined to be susceptible to risk, such as the Department of Health and Human Services' Medicaid Program, with outlays exceeding \$175 billion annually, and the Department of Education's Title I Program, with outlays of over \$10 billion annually.

**Table 2: Programs That Did Not Report Improper Payment Estimates as Previously Required Under OMB Circular No. A-11 and Target Dates for Expected Estimates**

Program	Fiscal year 2004 outlays (in billions)	Target fiscal year for estimate				Did not report
		2005	2006	2007	2008	
Department of Agriculture – Agriculture Marketing and Assistance	\$8.8	X				
Department of Health and Human Services – Foster Care – Title IV-E	4.7	X				
Department of Health and Human Services – State Children’s Insurance Program	4.6	X				
Department of Health and Human Services – Child Care and Development Fund	4.8	X				
Small Business Administration – 7(a) Business Loan Program	.7	X				
Department of Health and Human Services – Medicaid	175.3		X			
Department of Agriculture – School Programs	8.4			X		
Department of Agriculture – Women, Infants, and Children Program	4.8				X	
Department of Labor – Workforce Investment Act	3.1					X
Department of Education – Title I	10.3					X
Department of Health and Human Services – Temporary Assistance for Needy Families	17.7					X
Department of Housing and Urban Development – Community Development Block Grant	5.5					X
<b>Total</b>	<b>\$248.7</b>	<b>5</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>4</b>

Sources: OMB and cited agencies’ fiscal year 2004 PARs.

Of these 12 programs, 8 reported that they would be able to estimate and report on improper payments sometime within the next 4 years, but could not do so for fiscal year 2004. The other 4 programs in 4 agencies did not estimate improper payment amounts and the PARs were silent about whether they would report estimates in the future. As a result, improper payments for several large programs susceptible to risk will not be known for several years, even though these agencies were required to report this information with their fiscal year budget submissions since 2002.

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. Although OMB reported that the \$45 billion in improper



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payments establishes a baseline from which short- and long-term program improvement strategies and priorities will be based, it recognizes that fiscal year 2005 reductions in improper payments will be affected by outlay changes as well as the identification of new improper payments as additional programs are measured and methodologies are enhanced.

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## Conclusion

In closing, Mr. Chairman, I want to say that we recognize that measuring improper payments and designing and implementing actions to reduce or eliminate them are not simple tasks and will not be easily solved. The ultimate success of the governmentwide effort to reduce improper payments depends, in part, on each federal agency's continuing diligence and commitment to meeting the requirements of the act and the related OMB guidance. The level of importance each agency, the administration, and the Congress place on the efforts to implement the act will determine its overall effectiveness and the level to which agencies reduce improper payments and ensure that federal funds are used efficiently and for their intended purposes. Without such efforts, the likelihood of designing and implementing actions governmentwide to reduce or eliminate improper payments is doubtful. Fulfilling the requirements of the IPIA will require sustained attention to implementation and oversight to monitor whether desired results are being achieved.

This concludes my statement, Mr. Chairman. I would be pleased to respond to any questions that you or other Members of the Subcommittee may have.

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## GAO Contacts and Staff Acknowledgments

For more information regarding this testimony, please contact McCoy Williams, Director, Financial Management and Assurance, at (202) 512-6906 or by e-mail at [williamsm1@gao.gov](mailto:williamsm1@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Individuals making key contributions to this testimony included Lisa Crye, Danielle Free, Carla Lewis, Donell Ries, and Alana Stanfield.

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