Office of Management and Budget

Improving the Accuracy and Integrity of Federal Payments

January 31, 2007

Table of Contents

I. EXECUTIVE SUMMARY

In its third year of reporting under the Improper Payment Improvement Act (IPIA) of 2002, the Federal Government continues to make measurable improvements in identifying and reducing improper payments. Specifically, since IPIA reporting began in fiscal year (FY) 2004, Federal agencies have made progress in the following three key areas:

1. Identifying risk susceptible programs.

   Agencies have strengthened their methods for risk assessing their programs and activities for improper payments. As a result of these improvements, the amount of Federal outlays determined to be susceptible to improper payments increased from $1.4 trillion (or 62% of total Federal outlays) to $1.7 trillion (or 66% of total Federal outlays). This year's risk total includes $184 billion in Federal programs outlays not previously reported as risk susceptible in this annual report. An increase in high-risk outlays does not mean that improper payments have increased or will increase in the future. Rather, the increase reflects the continued commitment of Federal agencies to ensure that all *potential* sources of error are reported.

2. Estimating the annual amount of improper payments in risk susceptible programs.

   The amount of Federal program outlays that are being measured for improper payments has increased from $1.1 trillion to $1.4 trillion. Therefore, 81% of all risk susceptible outlays are being measured for improper payments ($1.4 trillion of the $1.7 trillion high-risk dollars). Further, when FY 2008 results are reported, almost 100% of risk susceptible dollars will report an error measurement (with the inclusion of over $325 billion in high-risk outlays not currently reporting an error measurement).

3. Identifying the root causes of improper payments and correcting the errors.

   The amount of improper payments in the programs originally reported in FY 2004 were reduced from a baseline of approximately $45.1 billion to $36.3 billion this year, a nearly $9 billion or 20% reduction. These original programs continue to represent a significant majority of FY 2006 improper payments.

In FY 2006, the total Federal improper payment rate was 2.9% and total improper payments equaled $40.5 billion. These numbers represent a reduction in the total rate and amount of improper payments reported since FY 2004 (from 3.9% and $45.1 billion respectively). The decrease in the FY 2006 improper payment rate was driven largely by two factors: (1) a reduction in Medicare improper payments by $1.3 billion since FY 2005 and (2) a low improper payment rate for programs that reported error measurements for the first time in either FY 2005 or FY 2006. Specifically, the improper payment rates for the FY 2005 and FY 2006 programs are lower than those of the baseline programs which originally reported an error measurement in FY 2004. Exhibit EX-1, Federal Improper Payments by Fiscal Year, summarizes all government-wide improper payment rates and totals for the first three years of

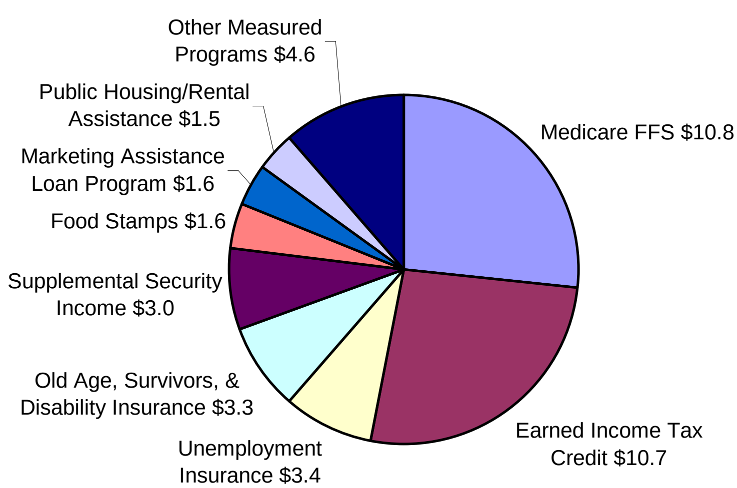
IPIA reporting, showing both the cumulative results as well as results for each annual cohort of reported programs.

Exhibit EX-1 – Federal Improper Payments by Fiscal Year ($ in millions)

	FY 2004			FY 2005			FY 2006		
	Outlays	Improper Payments	Error Rate	Outlays	Improper Payments	Error Rate	Outlays	Improper Payments	Error Rate
FY 2004	$ 1,142,520	$ 45,043	3.9%	$ 1,098,160	$ 37,170	3.4%	$ 1,146,443	$ 36,300	3.2%
FY 2005				$ 124,684	$ 1,314	1.1%	$ 143,222	$ 2,920	2.0%
FY 2006							$ 122,413	$ 1,295	1.1%
Total	$ 1,142,520	$ 45,043	3.9%	$ 1,222,844	$ 38,484	3.2%	$ 1,412,078	$ 40,515	2.9%

When reviewing all programs and activities reporting error measurements in FY 2006, more than 89% of reported improper payments are accounted for in eight programs (referred to as "the Big 8"). In past years, seven programs accounted for the majority of reported improper payments. Added to these seven original programs is the U.S. Department of Agriculture's (USDA) Marketing Assistance Loan Program. The Marketing Assistance Loan Program made improvements to how it measured improper payments and reported a significant increase as a result. USDA anticipates that improper payments in this program will decrease significantly in FY 2007 because of corrective actions that it has already implemented. Exhibit EX-2, FY 2006 Improper Payments by Major Program, breaks out improper payments in each "Big 8" program.

Exhibit EX-2 – FY 2006 Improper Payments by Major Program ($ in billions)



The following items highlight progress for several programs during FY 2006:

- The Medicare program, for the second consecutive year, experienced a sharp reduction in its improper payments. Specifically, the Department of Health and Human Services reduced payment errors from $12.1 billion (5.2%) in FY 2005 to $10.8 billion (4.4%) in

FY 2006. This amounts to a total reduction of more than 50% or $10.9 billion in improper payments since FY 2004 reporting. These reductions are due primarily to improved processes for receiving medical documentation of paid claims.

- The Department of Housing and Urban Development (HUD) continued to reduce improper payments in its rental assistance and public housing programs. As reported in its FY 2006 Performance and Accountability Report, more than $2 billion in improper payments have been eliminated since 2001, a reduction of 60%. Key to HUD's success in reducing improper payments was the implementation of the "Enterprise Income Verification System." This system allows housing administrators controlled access to existing Federal databases to verify amounts and sources of beneficiaries' income, including wages, social security benefits, and unemployment insurance benefits.

- USDA, for the seventh consecutive year, reduced the error rate for the Food Stamp program. The current error rate of 5.8% was the result of program simplification and improved State administrative practices. This rate represents the lowest measurement in the history of the Food Stamp program.

- The Social Security Administration's Old Age, Survivors, and Disability Insurance program (OASDI) error rate dropped 1/10 of 1 percent. Because OASDI is the single, largest civilian program in the Federal Government, this translates to a $401 million reduction in improper payments.

In addition, Departments and agencies have now completed their third year of reporting under the Recovery Auditing Act (section 831 of the Defense Authorization Act for Fiscal Year 2002 (Pub. L. No. 107-107). In FY 2006, 20 agencies reported on their recovery audit efforts in their PARs, an increase of 14 agencies since 2004. The Department of Defense (DoD) reviewed nearly $300 billion in commercial payments during FY 2006. Of the approximately $170 million in FY 2006 payment errors identified at DoD, more than $133 million were recovered. Additionally, the Department of Veterans Affairs reviewed nearly $1.5 billion in contract payments as part of its Supply Fund recovery audit work. Of the $21 million in amounts identified for recovery, more than $20 million was recouped. This represents a recovery rate of more than 95%.

With agencies working to deploy more innovative and sophisticated approaches for addressing improper payments, the prospects for additional and significant improper payment reductions in the coming years are promising. The Chief Financial Officers Council continues to play a critical role in these efforts through its Improper Payments Transformation Team. This group has been collaborating with non-governmental entities to consolidate government-wide best practices, enumerate legislative and regulatory barriers that hinder program integrity efforts, and develop forums where Federal and State stakeholders from the program, audit, and financial communities work together to solve program integrity challenges. The Administration is continuing to pursue an aggressive legislative agenda in the improper payments arena, with a series of program integrity reforms included in the President's FY 2008 Budget.

II. INTRODUCTION

The Federal Government continues to achieve measurable results in meeting the President's goal to eliminate improper payments and fulfill the requirements of the Improper Payments Information Act (IPIA) of 2002 (Pub. L. No. 107-300). Improper payments occur when Federal funds go to the wrong recipient, the recipient receives the incorrect amount of funds, documentation is not available to support a payment, or the recipient uses the funds in an improper manner. The Administration has also made the elimination of improper payments a major focus of the President's Management Agenda (PMA) by creating the Eliminating Improper Payments program initiative.

By dedicating a separate PMA initiative to improper payments that closely mirrors the IPIA, the Administration is ensuring that agency managers are held accountable for meeting the goals of the IPIA and are dedicating the necessary attention and resources to meeting its requirements. Specifically, the IPIA and PMA focus Federal agencies on the following three activities:

1. Identifying programs and activities which may be susceptible to significant improper payments;
2. Estimating the annual amount of improper payments in risk susceptible programs and activities; and
3. Identifying the root causes of improper payments and performing corrective actions to reduce errors.

Beginning in 2000, Federal agencies reported efforts to reduce improper payments through the Office of Management and Budget's (OMB) Circular A-11, Section 57. This reporting requirement focused on 40 to 45 of the largest Federal programs, accounting for approximately half of all Federal outlays. With the passage and signing of the IPIA in 2002, as implemented through OMB guidance, the President and Congress have created a permanent framework for assessing every Federal program and dollar for risk of improper payments, annually measuring the accuracy of payments, and initiating program improvements to ensure that payment errors and improprieties are reduced and ultimately eliminated.

Pursuant to the IPIA, OMB issued its original implementation guidance to agencies in May 2003 as Memorandum 03-13 (M-03-13). In August 2006, OMB updated and revised this guidance in Appendix C to OMB Circular A-123, *Management's Responsibility for Internal Controls.* Appendix C to OMB Circular A-123, *Requirements for Effective Measurement and Remediation of Improper Payments*, consolidated three memoranda (M-03-13 is encompassed in Part I of Appendix C, and M-03-07 and M-03-12 are encompassed in Part II of Appendix C). Further, Appendix C clarified and updated requirements to support government-wide IPIA compliance. Significant updates to OMB's IPIA guidance include:

- New language to clarify the definition of an improper payment;
- Provisions for alternative sampling methodologies;
- Reporting requirements for certain low risk programs;
- Guidance for Federal agencies that fund State-administered programs; and

- Clarification of OMB's authority to require agencies to track programs under the IPIA with low error rates (i.e., less than 2.5%), but significant improper payment amounts.

Appendix C requires that agencies perform the following steps to comply with the law:

- Perform Risk Assessments. Agencies are required to review all programs and activities and identify those that are risk susceptible to significant improper payments. A program or activity with significant improper payments is one where improper payments exceed both $10 million and 2.5% of program payments on an annual basis. Notably, all programs listed in Section 57 of OMB Circular A-11 are automatically deemed to be risk susceptible to significant improper payments.

- Obtain Statistical Estimates. Agencies are required to develop a statistically valid estimate of improper payments for all programs and activities identified as susceptible to significant improper payments in the risk assessment. The statistical estimate must be based on a sample size sufficient to yield an estimate with a 90% confidence interval, plus or minus 2.5%.

- Prepare Corrective Action Plans. For all programs where the statistical estimate exceeds $10 million in annual improper payments, agencies are required to develop a remediation plan for eliminating improper payments. The remediation plan must contain annual targets for reducing improper payment levels.

- Report Estimates and Progress. Agencies are required to report the results of IPIA activities on an annual basis in their Performance and Accountability Report (PAR).

The remainder of this report describes the progress agencies made during fiscal year (FY) 2006. Focus is placed where efforts stand with respect to identifying high-risk programs, developing statistically valid improper payment estimates, and eliminating improper payments. The report concludes with a discussion of the outlook for improper payments beyond FY 2006, including a series of reforms that are needed to ensure greater program integrity and payment accuracy.

Note: Agency-specific reporting of improper payments for FY 2006 is provided in agency PARs (available on agency websites). This Report aggregates the results of the agency-specific reports, highlighting accomplishments and remaining challenges.

III. FY 2006 ACCOMPLISHMENTS

As required by the IPIA, the Recovery Auditing Act, and associated OMB guidance, agencies built on the foundation of activities completed in FY 2004 and FY 2005 by updating risk assessments on all Federal outlays, conducting annual error measurements on programs deemed risk susceptible for improper payments, initiating corrective action plans, and implementing recovery audit efforts for improper payments to vendors.

In FY 2006, the Federal Government made significant progress in meeting the requirements of the IPIA. Most significantly, the total Federal improper payment rate was reduced to 2.9%, improper payments for the programs which originally reported an error measurement in FY 2004 were reduced by over $870 million, and programs with more than $122 billion in outlays reported an improper payment error rate for the first time (thereby increasing the total number of programs reporting to 53).[1] Exhibit 1, Federal Improper Payments by Fiscal Year, summarizes all government-wide improper payment rates for the first three years of IPIA reporting, showing both the cumulative results as well as tracking results for each annual cohort of reported programs.

Exhibit 1 – Federal Improper Payments by Fiscal Year ($ in millions)

	FY 2004			FY 2005			FY 2006		
	Outlays	Improper Payments	Error Rate	Outlays	Improper Payments	Error Rate	Outlays	Improper Payments	Error Rate
FY 2004	$ 1,142,520	$ 45,043	3.9%	$ 1,098,160	$ 37,170	3.4%	$ 1,146,443	$ 36,300	3.2%
FY 2005				$ 124,684	$ 1,314	1.1%	$ 143,222	$ 2,920	2.0%
FY 2006							$ 122,413	$ 1,295	1.1%
Total	$ 1,142,520	$ 45,043	3.9%	$ 1,222,844	$ 38,484	3.2%	$ 1,412,078	$ 40,515	2.9%

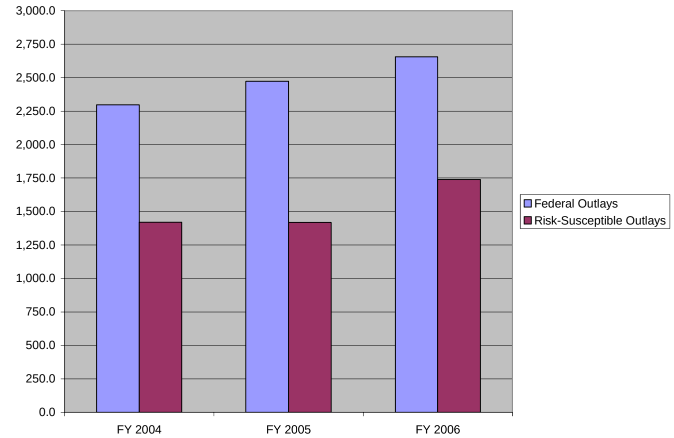
Progress in Identifying Risk Susceptible Programs

(See Table 1, FY 2006 Risk Susceptible Program Outlays, included in the Appendix to this Report)

Having high-quality risk assessments is critical to meeting the objectives of identifying improper payments and is essential for performing corrective actions to eliminate payment errors. As illustrated in Exhibit 2, Total Federal and Risk Susceptible Outlays Since FY 2004, in FY 2006, Federal agencies completed a risk assessment of all programs and dollars spent and determined that nearly 66% of government outlays (or $1.7 trillion out of $2.7 trillion) were risk susceptible for a significant level of improper payments, up from 60% in FY 2004. The remaining $917 billion that was deemed not to be risk susceptible includes other agency outlays not susceptible to significant improper payments and net interest on the public debt.

[1] In FY 2006, HUD's Community Development Block Grant program and the U.S. Agency for International Development's Cash Transfers program and Cooperative Agreements, Grants & Contracts program have reported an error measurement for the first time. However, in their first year of reporting, these programs also reported error measurements for prior years.

Exhibit 2 – Total Federal and Risk Susceptible Outlays Since FY 2004 ($ in millions)



Included in the FY 2006 risk total are programs with outlays totaling $184 billion not previously reported as risk susceptible.[2] Additionally, the National Science Foundation's Education / Research Grants and the Department of Veterans Affairs' Insurance programs have been granted relief, in accordance with Appendix C to OMB Circular A-123,[3] from annual improper payment reporting after having documented a minimum of two consecutive years of improper payments that are less than $10 million annually.

Of significant note, the U.S. Department of Agriculture (USDA) made improvements in its risk assessments in FY 2006. These improvements resulted in four additional programs being identified as susceptible to improper payments. This increased the USDA's risk susceptible program outlays from the $43 billion reported in FY 2005 to more than $73 billion in FY 2006. An important result of these improved risk assessments at USDA and other agencies is that greater transparency is now available into a significant amount of improper payments that were previously undetected. This underscores the importance of having agencies continuously evaluate the strength of their risk assessment practices.

Progress in Estimating the Annual Amount of Improper Payments in Risk Susceptible Programs

(See Table 2, Improper Payments Reported in FYs 2004 - 2006 PARs by Program, included in the Appendix to this Report)

Progress continues in estimating the annual amount of improper payments. This improvement is evident in two key areas (1) increasing the number of programs reporting an error measurement and (2) having measurement plans in place for the remaining major Federal agencies not yet reporting an error measurement.

---

[2] An increase in high-risk outlays does not mean that improper payments have increased or will increase in the future. Rather, the increase reflects the continued commitment of Federal agencies to ensure that all potential sources of error are reported.

[3] If significant legislative or programmatic changes occur that affect these programs, the agencies will again be required to measure and report annually. Otherwise, the programs would need to risk assess and report in three years.

In FY 2006, Federal agencies reported improper payment rates (and amounts) for programs that account for approximately 81% of risk susceptible dollars. Specifically, of the $1.7 trillion in risk susceptible outlays, improper payment rates are reported on programs that total approximately $1.4 trillion of those outlays. Of the programs with error measurements, eight programs (referred to as "the Big 8") account for more than 89% percent of FY 2006 reported improper payments. Exhibit 3, FY 2006 Improper Payments by Major Program, breaks out improper payments in each "Big 8" program.

Exhibit 3 – FY 2004 - 2006 Improper Payments by Major Program ($ in millions)

	FY 2004		FY 2005		FY 2006	
Program	Improper Payments	Percent	Improper Payments	Percent	Improper Payments	Percent
Medicare FFS	21,705.0	48.2%	12,100.0	31.4%	$10,800.0	26.7%
Earned Income Tax Credit	9,653.0	21.4%	10,500.0	27.3%	$10,700.0	26.4%
Unemployment Insurance	3,861.0	8.6%	3,267.0	8.5%	$3,376.0	8.3%
Old-Age, Survivors, & Disability Insurance	1,707.0	3.8%	3,681.0	9.6%	$3,280.0	8.1%
Supplemental Security Income	2,639.0	5.9%	2,910.0	7.6%	$3,028.0	7.5%
Food Stamps	1,613.0	3.6%	1,432.0	3.7%	$1,645.0	4.1%
Marketing Assistance Loan Program			45.0	0.1%	$1,611.0	4.0%
Public Housing/Rental Assistance	1,707.0	3.8%	1,467.0	3.8%	$1,464.0	3.6%
Subtotal	*42,885.0*	*95.2%*	*35,402.0*	*92.0%*	*$35,904.0*	*88.6%*
Other Measured Programs	2,158.0	4.8%	3,082.3	8.0%	$4,611.2	11.4%
Total	**45,043.0**	**100.0%**	**38,484.3**	**100.0%**	**$40,515.2**	**100.0%**

In past years, seven programs accounted for the majority of reported improper payments. Added to the seven original programs is USDA's Marketing Assistance Loan Program, one of several USDA programs that made statistical sampling improvements in FY 2006. As a result, this program reported an additional $1.6 billion in improper payments. A majority of these errors were the result of inadequate file documentation. The Department has quickly implemented corrective actions to mitigate the documentation inadequacies discovered and anticipates that improper payments will decrease in FY 2007.

One factor influencing the increase in improper payments is an increase in the number of programs reporting an error measurement. Specifically, the amount of Federal program outlays that are being measured for improper payments has increased from $1.2 trillion in FY 2005 to $1.4 trillion in FY 2006 (representing outlays for 15 programs reporting an error measurement for the first time in FY 2006).

Equally as important, agencies will report an error measurement and prepare a corrective action plan for virtually all large outlay / high-risk programs in their FY 2008 PARs *(see Table 3, Improper Payment Measurements for Risk Susceptible Programs not Reported in FY 2006, included in the Appendix to this Report).*[4] Specifically, the National School Lunch and Breakfast Programs and several Department of Transportation grant programs will report in FY 2007, and Medicaid, Temporary Assistance for Needy Families, the Child Care and Development Fund, and the State Children's Health Insurance Program will report in FY 2008. These programs

[4] The date when the Medicare Prescription Drug Benefit program (with outlays of $37.4 billion) will report an error measurement is currently being determined.

account for approximately $325 billion in high-risk outlays with Medicaid alone comprising $183 billion or 56% of these (currently unmeasured) outlays. Once these programs begin reporting, the Federal Government will be able to report for programs that comprise virtually 100% of risk susceptible dollars.

Progress in Identifying the Root Causes of Improper Payments and Correcting the Errors

(See Table 2, Improper Payments Reported in FYs 2004 - 2006 PARs by Program, included in the Appendix to this Report; Exhibit 2; and Exhibit 3)

During FY 2006, the Federal Government made significant progress in meeting the President's goal to eliminate improper payments. The FY 2006 improper payment rate, which consists of programs previously reported in FY 2004 and FY 2005 as well as programs newly reported in FY 2006, was reduced from 3.2% (in FY 2005) to 2.9%. This rate reflects a net $2 billion increase in improper payments since FY 2005 ($38.5 billion to $40.5 billion). The increase in improper payments is due to the following:

- A net $870 million *decrease* in improper payments for programs originally reported in FY 2004 (due in large part to Medicare);
- A net $1.6 billion *increase* in improper payments for programs originally reported in FY 2005 (due in large part to the Marketing Assistance Loan Program); and
- $1.3 billion in *new* improper payments for programs reporting for the first time.

Some of the Federal Government's most significant progress has been in reducing the $45.1 billion government-wide improper payments for programs originally reported in FY 2004. Specifically, improper payments in these programs, which represent a significant majority of FY 2006 improper payments, dropped to $36.3 billion in FY 2006. The cumulative two-year decrease for these programs is approximately $9 billion, nearly 20%. Eight of these programs account for the majority (89%) of the reported improper payment total for FY 2006. What follows are FY 2006 highlights from these programs (Note: the Marketing Loan Assistance programs is discussed on page 5 of this report.)

1. <u>Medicare/Department of Health and Human Services (HHS)</u>. The Medicare Fee-for-Service program, government-sponsored health insurance for America's seniors and disabled citizens, is the second largest Federal benefit program representing approximately $246.8 billion in outlays in FY 2006. HHS reported $10.8 billion in improper payments in the Fee-for-Service portion of the program in FY 2006, a $1.3 billion reduction from the $12.1 billion reported in FY 2005. This result was achieved through HHS efforts to ensure that the necessary documentation is provided to support payment claims.

   The Medicare program continues to be a government leader in identifying and preventing improper payments. In late FY 2005, the three largest States in terms of Medicare payments (i.e., California, Florida and New York) began a pilot program. This pilot consisted of recovery auditing contractors reviewing previous fiscal year payments to hospitals, physicians, and other medical providers. It proved such a significant success, that Congress decided to make the program permanent. By FY 2010, all States must develop and implement a recovery auditing plan using private sector firms to review their historical payment files to potential payment errors. The funds recovered are returned to the Medicare Trust Fund less the contingency fee is paid to the contractors and internal costs are accounted for and reimbursed to the agency.

2. Earned Income Tax Credit (EITC)/Treasury Department. This program provides a tax credit to low-income citizens and is one of the largest Federal policies helping America's poor. Eligibility for the credit is based on income level, filing status, and number of dependents. In FY 2006, the program reported an improper payment amount ranging from $9.8 billion to $11.6 billion (or a 23% to 28% improper payment rate). This estimate is a projection based on the most recent EITC error study from tax year 2001, and represents an approximate $200 million increase in improper payments from the level reported in FY 2005.

   The three most significant causes of error in the program are:

   - Qualifying Child – whether the child lives with the individual claiming the credit and passes the "relationship test";
   - Filing Status of the Taxpayer – whether the individual claiming the credit has properly filed as single/head of household versus married; and
   - Underreporting of Income – whether the individual claiming the credit has properly stated his/her income.

   Based on the information contained in the National Research Project results published during 2006, the IRS plans to focus its enforcement efforts on the overall net tax gap of $290 billion as opposed to adding resources to the comparatively smaller portion ($10.7 billion) of EITC refund errors. In addition, the President's FY 2008 Budget proposes several legislative reforms that will complement ongoing administrative and process improvements, facilitating additional improper payment eliminations. (See Section III of this Report for additional detail on proposed legislative changes related to the EITC program).

3. Unemployment Insurance (UI)/Department of Labor (DOL). The UI program is a Federal-State partnership. The States provide unemployment benefits to eligible workers who become unemployed and meet certain other eligibility requirements, paying for these benefits out of State-levied unemployment taxes. The Federal Government provides grants to States to cover the program's administrative costs. The largest single cause of improper payments in this program continues to be payments received by claimants who have returned to work but continue to claim benefits. DOL has focused on providing new tools for the States that will allow earlier identification of those claimants who have returned to work.

   In addition to States continuing to use their State new hire directories, States now have access to the National Directory of New Hires (NDNH). The President's FY 2008 Budget proposes additional legislative changes that would provide more accurate information in the NDNH on the date work started. Additional proposed reforms would allow States to use a portion of the overpayment recoveries to pay private collection agencies, as well as retain a portion of the recoveries to fund further program integrity efforts. (See Section III of this Report for additional detail on proposed legislative changes related to the UI program).

4. Supplemental Security Income (SSI)/Social Security Administration (SSA). Benefits from this program go to low-income elderly and disabled persons. The program reported over $3 billion in estimated improper payments in FY 2006, an increase of $118 million from the $2.9 billion improper payment estimate reported in FY 2005. The main causes of payment errors in this program are incorrect records of beneficiaries' wages and beneficiaries having assets that make them ineligible for benefits. Benefit levels depend on an individual's income. If an individual does not report changes in monthly wages and/or SSA does not process the reported information promptly, improper payments will be made. In order to reduce improper payments in this program, SSA is pursuing a number of corrective actions, including automated data matches with banks and other financial institutions.

   Payment accuracy rates for this program were established many years ago. Included in the President's Budget for FY 2008 are requests for program integrity dollars that require further Congressional action. Without these funds to prevent and recover improper payments, SSI improper payments will continue to increase as long as program outlays increase. However, if the program integrity funding levels included in the President's FY 2008 Budget are enacted, the error rate in this program will drop markedly.

5. Old Age, Survivors and Disability Insurance (OASDI)/SSA. The OASDI program, the largest civilian entitlement program in the Federal Government with more than $514 billion in annual outlays, provides benefits to retirees, disabled persons, and their surviving spouses and/or minor children. Payment errors are largely the result of recipient failure to report changes in earnings, household composition, or other income-related items. The OASDI improper payments rate declined from 0.74% to 0.64% (or $401 million) during FY 2006.

6. Food Stamp Program/USDA. The goal of the Food Stamp program is to reduce hunger and improve the nutrition of the neediest of our citizens. Recipients receive electronic benefits redeemable for food at authorized grocery stores, markets, and similar establishments. Errors occur when recipients report incorrect information or when State agencies make mistakes in implementing program rules. USDA has successfully implemented the use of an electronic benefits transfer card that reduces the risk of fraudulent use or theft. In FY 2006, the program reported an error rate reduction for the seventh consecutive year. The 5.8% improper payment rate reported in the FY 2006 PAR was the lowest payment error rate in the history of the program. The record reductions achieved in FY 2006 are a result of USDA's continuing efforts to simplify program rules as well as sharing of State best practices. In addition, a State with a high error rate must develop a quality control corrective action plan to address deficiencies revealed through an analysis of its own quality control data. Further, a State with an

excessive error rate will be required to invest a specified amount of resources designated specifically to correct and lower its error rate. A State will also face additional financial penalties if it fails to lower its error rate in a future fiscal year. States also earn incentives if their error rates fall below the national average.

7. Public Housing/Rental Assistance/Department of Housing and Urban Development (HUD). Prior to the enactment of the IPIA, HUD had established an improper payments reduction program for its various rental housing assistance programs including Public Housing, Section 8 Tenant-Based Assistance and Multifamily Housing Project-Based Assistance. These programs are administered by over 26,000 public housing agencies and multifamily housing owners or management agents on HUD's behalf. In general, the program benefits paid represent the difference between 30% of an eligible household's adjusted income and the established rent level (or the operating cost, in the case of public housing). HUD reported a 5.4% improper payment rate in the FY 2006 PAR for these programs or a total improper payment amount of $1.5 billion. HUD has achieved great success in its program integrity efforts over the past several years, having lowered their improper payments by 60% since 2001.

Hurricane Katrina

In FY 2006, the Federal Government gathered additional information on how it fared with respect to payments made during Hurricane Katrina. This disaster, unlike any that the Federal Government experienced in the past, highlighted the inherent tension between maintaining program integrity controls while simultaneously delivering benefits to beneficiaries in record time.

Due to the sheer scope of destruction, upfront eligibility controls were relaxed to facilitate rapid benefit delivery. As a result, many programs experienced increases in their improper payment rates and dollars. Programs most directly impacted include the Individuals and Households Program at the Federal Emergency Management Administration (FEMA), the Unemployment Insurance Program at DOL, and the Disaster Loan program at the Small Business Administration (SBA).

- FEMA's Individuals and Households Program performed a sampling of beneficiary payments made from September 2005 through March 2006 identifying approximately $334 million in improper payments out of $3.9 billion in benefits, an error rate of 8.6%.

- DOL identified more than $100 million in improper payments attributable to the Disaster Unemployment Insurance Program that went into effect following Hurricane Katrina.

- SBA's Disaster Assistance Loan Program issued more than $11 billion in loan approvals during FY 2006. Of this amount, 80%, or approximately $9 billion, were issued in the aftermath of Hurricane Katrina. These loan approvals more than triple the amounts approved following the Northridge Earthquake in 1994. Despite this enormous increase in workload, SBA's FY 2006 error rate for disaster loans was still less than 1% ($89 million).

- FEMA conducted testing on its vendor payments from September 2005 through March 2006. This testing identified $502 million in payment errors. FEMA is currently in the process of recovering these payments as well as payment errors identified between April and September 2006. In addition, the Department of Homeland Security (DHS) established a separate review of all Hurricane Katrina related payments and issues weekly reports detailing amounts identified and recovered.

To respond to the challenges of the Gulf Coast hurricanes, on August 29, 2006, the President signed Executive Order 13411, Improving Assistance for Disaster Victims. The Executive Order establishes a task force on disaster assistance coordination to develop a plan to streamline and otherwise improve the delivery of Federal disaster assistance. The task force is also responsible for recommending specific actions to improve the delivery of Federal disaster assistance, including strengthening controls designed to prevent improper payments and other forms of fraud, waste, and abuse.

Improper Payments to Vendors Identified and Recovered under the Recovery Auditing Act

(See Table 4, Agency Recovery Auditing Reporting, included in the Appendix to this Report)

FY 2006 marked the third year of reporting under the Recovery Auditing Act *(section 831 of the Defense Authorization Act for Fiscal Year 2002 (Public Law No. 107-107)*. Of note, 20 agencies (including the Tennessee Valley Authority) reported on their recovery audit efforts in their PARs, an increase of 14 agencies since 2004. Of these agencies, two agencies (i.e., DOL and HUD) subject to the Chief Financial Officer's (CFO) Act suspended their recovery audit work after determining that the return on investment no longer made their efforts cost effective. Four CFO Act agencies (i.e., the Nuclear Regulatory Commission, the National Science Foundation, the Office of Personnel Management, and the Small Business Administration) are not subject to the law as they do not award annual contracts that exceed $500 million. Significant accomplishments include the following:

- Of the $524 billion in contracts subject to review during FY 2006, $470 billion (approximately 90%) were reviewed and reported on in this year's PARs. These numbers reflect an increase of more than $150 billion in both categories from last year ($365 billion and $316 billion respectively).

- Of the $470 billion in outlays to vendors that agencies reviewed (compared to the $316 billion reviewed during FY 2005), approximately $1.5 billion in improper payments were identified. This is nearly a $155 billion increase in outlays subject to review and nearly a 300% increase in payments actually reviewed and reported on ($1.5 billion in FY 2006 compared to $556 million in FY 2005).

- The Department of Defense reviewed nearly $300 billion in commercial payments during FY 2006. Of the approximately $170 million in FY 2006 payment errors identified, more than $133 million were recovered.

- The Department of Veterans Affairs (VA) maintains three separate internal recovery auditing processes, which continue to demonstrate significant results. Because many of the payment errors identified were made to vendors that continue to do business with VA, recoveries are frequently offset against future invoices. In addition, VA's Supply Fund recovery audit work identified $21 million eligible for recovery (out of $1.5 billion in contract payments reviewed). More than $20 million has already been recouped, a recovery rate of more than 95%.

Two of the largest Federal agencies (i.e., USDA, DHS) had difficulties in obtaining security clearances for recovery auditing contractors in a timely manner. As a result, their FY 2006 reporting shows a sharp decline in the amounts reviewed, identified, and recovered from FY 2005. OMB anticipates that recoveries in these two departments will increase in FY 2007.

IV. PROPOSED REFORMS

As noted throughout this Report, Federal agencies are pursuing numerous and varied administrative actions to facilitate the identification and elimination of improper payments. However, such administrative actions must be complemented by targeted programmatic reforms if efforts to eliminate improper payments are to be fully successful. As a result, OMB has worked with Federal agencies to enumerate the legislative changes that are necessary to facilitate better measurement, detection, and elimination of improper payments.

The recent enactment of legislation (Pub. L. No. 109-432) requiring all States to institute recovery auditing to recoup Medicare Trust Fund dollars that were improperly paid to hospitals, physicians, and other health care providers over the past several years is a significant step in the right direction for program integrity efforts. It is this type of forward thinking that encourages additional ideas for eliminating improper payments. Optimally, Federal agencies and Congress would define needed program integrity controls when programs are authorized, and before new programs and activities commence.

The President's FY 2008 Budget, contains a series of reforms that are necessary to ensure greater program integrity and payment accuracy. These proposals are summarized below:

- *UI Overpayment Recoveries* – provides tools and resources as financial incentives to States to more aggressively pursue benefit overpayments, impose penalties for fraud, charge employers when their actions lead to overpayments, and collect delinquent overpayments through garnishment of tax refunds. The reform proposal further improves the accuracy of hiring data in the National Directory of New Hires to include the actual start work date. If enacted, the proposal is projected to save $3.6 billion over ten years.

- *EITC (and Child Tax Credit)* – clarifies the uniform definition of child, simplifies the EITC eligibility rules, and reduces the computational complexity of the refundable child tax credit. If enacted, the proposals would save $392 million in the first year and $6.5 billion over ten years.

- *OASDI* – provides SSA with the tools to conduct improved enforcement of the Windfall Elimination Provision and the Government Pension Offset. In addition, it proposes to substitute a standard offset amount for the more complicated formulae currently in use for calculating the Worker's Compensation offset for Disability Insurance. If enacted, these two proposals would save $4 million in the first year and $3.6 billion over ten years.

In addition, consistent with Section 484(q) of the Higher Education Act and Section 6103(c) of the Internal Revenue Code, the Department of Education and the Internal Revenue Service intend to implement a process to verify students' (and their parents') income, tax and certain household information appearing on their income tax return that they provided as part of their application for Federal student aid. This process is part of ongoing efforts to ensure students receive the correct amount of Federal student aid, and is a key component of the Administration's efforts to reduce erroneous payments. This data match will significantly reduce longstanding incidences of fraud and error in the Pell Grant program. This proposal would save $300 million in the first year, and $3 billion over ten years.

There are additional proposals in the FY 2008 President's Budget that do not project scorable savings, but are critical to the Federal Government's efforts to eliminate improper payments. Most notably, the Budget proposes adjustments for spending above a base level of funding within discretionary levels (or "cap adjustments") that provide needed resources for administrative program integrity and tax compliance efforts in Medicare, Medicaid, EITC and other IRS enforcement activities, UI, SSI, and OASDI. Such funds should not be subject to discretionary spending caps, as they generate program efficiencies that result in large, positive return on investment for taxpayers.

V. OUTLOOK FOR FISCAL YEAR 2007 AND BEYOND

This Report has highlighted the significant progress being made by the Federal Government in the three key areas of the President's initiative to eliminate improper payments including identifying risk susceptible programs; reporting error measurements on all risk susceptible programs; and eliminating payment errors. In FY 2007 and beyond, the Federal government expects to build on these accomplishments by meeting performance targets to close the reporting gap and eliminate additional improper payments. OMB believes that Federal agencies can achieve the greatest return on investment for the taxpayer by ensuring that improper payments are eliminated in these high-risk programs. This risk management approach is consistent with the IPIA which instructs agencies to focus efforts on only those programs that are "susceptible to significant improper payments."

Identifying Risk Susceptible Programs

Having good risk assessments is critical to meeting the objectives of identifying and eliminating improper payments. In FY 2006, more outlays were reported as risk susceptible as a result of more rigorous risk assessment procedures. Moving forward, Federal agencies will continue to strengthen risk assessment practices to ensure that all high-risk programs are identified.

OMB has taken several important steps to ensure that risk assessments are accurate and complete. Specifically, the recent changes to Appendix A to Circular A-123, *Internal Control Over Financial Reporting*, established a more formal and rigorous self-assessment process for evaluating internal controls over financial reporting. Through this process, each agency has established a "Senior Assessment Team" that brings together a cross-section of agency personnel and subject matter experts to (1) discuss and validate sources of risk in financial management activities and (2) identify and implement procedures for documenting and testing the effectiveness of current internal control environments. These activities have led to a heightened awareness by both management and auditors of different types of financial risk that exist within agency business processes and of the types of additional rigor and work needed to uncover and understand those risks. As agency activities under Appendix A become more sophisticated and effective in future years, OMB expects those efforts to have a significant spillover effect into the risk assessments for improper payments required under the IPIA.

Also of note, recent enhancements to Appendix C to Circular A-123 are expected to help ensure that all risk susceptible programs are properly identified. Namely, OMB will be working with agencies to conduct targeted reviews of program outlays to ensure that programs with low error rates (i.e., less than 2.5%) but significant improper payment dollar amounts are reported for IPIA purposes.

Estimating the Amount of Improper Payments in Risk Susceptible Programs

(See Table 3, Improper Payment Measurements for Risk Susceptible Programs not Reported in FY 2006, included in the Appendix to this Report)

As of FY 2006, Federal agencies reported an improper payment measurement on 81% of all risk susceptible dollars. With error measurements expected for several additional programs in FY 2007, the amount of risk susceptible program outlays reporting an error measurement is expected to increase to 86%. Further, the reporting gap is expected to be eliminated in FY 2008, with all known risk susceptible programs, including Medicaid, reporting error measurements.

Through the specific actions that agencies are required to take under the PMA, OMB will continue to hold Federal agencies accountable for meeting the necessary planned actions and milestones that will yield error measurements in all remaining risk susceptible programs. In FY 2008, when all major programs will have error measurements, all efforts will be placed on identifying the cause of these improper payments and reducing errors in the highest risk programs.

Identifying the Root Causes of Improper Payments and Correcting the Errors

A critical part of agency compliance with the IPIA is establishing corrective action plans and future year projections for improved performance in reducing improper payments. The projections reflect the reduction in improper payments that each agency believes it can achieve, accounting for process and internal control improvements, resource constraints, and other relevant factors.

As highlighted in the FY 2006 Accomplishments, the improper payments originally reported in FY 2004 have decreased by approximately 20% over the past three years. In addition, the improper payment rate for all reported programs has steadily declined:

- 3.9% reported in FY 2004
- 3.2% reported in FY 2005
- 2.9% reported in FY 2006

In FY 2007 and beyond, OMB expects to see several important trends with Government-wide improper payment totals. Specifically, as more programs report improper payment measurements and outlays increase for key programs such as Medicare and Social Security, total improper payment dollars are likely to increase in the short term. However, due to planned program integrity improvements for all major programs, the improper payment rate is expected to continue to decline. The out-year improper payment rates based on agencies that reported projections in their FY 2006 PARs are as follows *(See Table 5, Improper Payments Projected for FY 2007 - FY 2009 as Reported in FY 2006 PARs, included in the Appendix to this Report)*:

- 2.8% expected in FY 2007
- 2.7% expected in FY 2008
- 2.6% expected in FY 2009

In addition, for those programs that originally reported in FY 2004, OMB has established an aggressive long-term goal of reducing the improper payment total from $45 billion to $25 billion by FY 2011. Federal agencies have made good progress toward this target, having already eliminated $9 billion in improper payments for programs originally reported on in FY 2004.

There are several factors that will impact the Federal government's ability to achieve these performance targets. Most critical, Congress must take action to implement the reforms that are proposed in this Report as well as the President's FY 2008 Budget. These reforms will ensure that Federal agencies, such as SSA, have the necessary resources to implement proven program integrity actions that will significantly reduce errors. Of note, the President's proposal to fully fund SSA program integrity activities is expected to generate $3.6 billion in savings over a ten-year period (although these savings are not scorable as offsetting direct spending). Other reforms noted in this Report and the President's Budget will ensure that Federal agencies have the tools (e.g., data match authorities) to implement necessary controls for improving payment accuracy.

In addition, OMB will continue to ensure that agencies apply resources to the areas with the greatest return on investment. In this manner, OMB requires agencies through the PMA to periodically re-evaluate corrective action plans to ensure that more effective activities are expanded and less effective activities are terminated. Through the CFO Council, Federal agencies continue to share their experiences on which approaches work best for eliminating payment error. Moreover, OMB is working with the CFO Council to explore new cross-cutting solutions (e.g., integrating eligibility processes along multiple programs) that are expected to result in additional improper payment reductions once implemented.

VI. CONCLUSION

Over the past three years, the Federal Government has made tremendous progress toward meeting the President's goal to eliminate improper payments. In FY 2004, Federal agencies established a strong foundation for identifying risk susceptible programs, annually measuring improper payments, identifying and implementing the necessary corrective actions, and tracking success over time. In FY 2006, the Federal Government demonstrated significant results in all facets of the initiative, reducing the government-wide improper payment total for all measured programs as well as the programs originally reporting in FY 2004; closing the reporting gap by providing improper payment measurements for high-risk programs for which no data had been available in the past; focusing on reducing errors in the largest Federal programs; and expanding and strengthening corrective actions by collaborating with other Federal agencies, State and local governments, and the private sector.

Moving forward, the Administration expects the government-wide improper payment rate to continue to decline as agencies deploy more innovative and sophisticated approaches for addressing improper payments. In addition, the Administration will pursue an aggressive reform agenda to strengthen program integrity and provide Federal managers with the additional tools for addressing the critically important initiative.

The PMA will continue to play an integral role in these efforts, holding agencies accountable for additional improper payment eliminations, for closing all reporting gaps, and for honing corrective actions to ensure that resources are expended on those efforts with the greatest impact on payment accuracy. As a direct result, the elimination of improper payments will remain a top priority of the Administration, government managers, and the entire Federal financial management community.

APPENDICES

Table 1: FY 2006 Risk-Susceptible Program Outlays
(Dollar amounts in millions)

1st Year in High-Risk Outlays	Department or Agency		FY 2006 (est.) Outlays ($)	Percentage (%) of Agency Total
	Department of Agriculture			
2004	Food Stamps	$	28,160	29.97%
2004	National School Lunch/Breakfast Program		6,506	6.92%
2004	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)		5,300	5.64%
2004	Federal Crop Insurance Program		3,206	3.41%
2004	Child and Adult Food Program		2,065	2.20%
2004	Rental Assistance		569	0.61%
2004	Marketing Assistance Loan Program		7,950	8.46%
2004	Conservation Resources Program		1,815	1.93%
2005	Wildland Fire Suppression		725	0.77%
2005	Farm Security and Rural Investment Program		1,375	1.46%
2005	Loan Deficiency Program		4,790	5.10%
2006	Direct and Counter-Cyclical Loans		8,546	9.10%
2006	Farm Disaster Programs		2,365	2.52%
2006	Non-Insured Assistance Program		109	0.12%
	Risk Total		73,481	78.21%
	Other Outlays		20,472	21.79%
	Outlay Total		93,953	100.00%
	Department of Defense			
2004	Military Retiree Benefits	$	35,600	7.13%
2004	Military Health Benefits		7,000	1.40%
2005	Military Pay		72,200	14.46%
2006	Civilian Pay		62,800	12.58%
2006	Travel Pay		800	0.16%
	Risk Total		178,400	35.73%
	Other Outlays		320,955	64.27%
	Outlay Total		499,355	100.00%

Table 1: FY 2006 Risk-Susceptible Program Outlays
(Dollar amounts in millions)

1st Year in High-Risk Outlays	Department or Agency		FY 2006 (est.) Outlays ($)	Percentage (%) of Agency Total
	Department of Education			
2004	Pell Grants		$ 12,117	12.97%
2004	Title I - Grants to States		12,597	13.48%
2005	FFEL Loans		18,245	19.53%
		Risk Total	42,959	45.98%
		Other Outlays	50,468	54.02%
		Outlay Total	93,427	100.00%
	Department of Health and Human Services			
2004	Medicare Fee-for-Service (FFS)		$ 246,800	40.17%
2004	Medicaid		182,854	29.77%
2004	Temporary Assistance for Needy Families		17,406	2.83%
2004	Head Start		6,786	1.10%
2004	Child Care and Development Fund		4,909	0.80%
2004	State Children's Health Insurance Program		5,839	0.95%
2004	Foster Care		1,750	0.28%
2006	Medicare Managed Care		55,365	9.01%
2006	Medicare Prescription Drug Benefit		37,426	6.09%
		Risk Total	559,135	91.02%
		Other Outlays	55,178	8.98%
		Outlay Total	614,313	100.00%
	Department of Homeland Security			
2006	FEMA's Individuals & Households Program		$ 3,902	5.65%
		Risk Total	3,902	5.65%
		Other Outlays	65,198	94.35%
		Outlay Total	69,100	100.00%
	Department of Housing and Urban Development			
2004	Public Housing/Rental Assistance		$ 27,242	64.20%
2006	Community Development Block Grants		4,832	11.39%
		Risk Total	32,074	75.59%
		Other Outlays	10,360	24.41%
		Outlay Total	42,434	100.00%

Table 1: FY 2006 Risk-Susceptible Program Outlays
(Dollar amounts in millions)

1st Year in High-Risk Outlays	Department or Agency			FY 2006 (est.) Outlays ($)	Percentage (%) of Agency Total
	Department of Labor				
2004	Unemployment Insurance		$	30,976	71.81%
2004	Federal Employment Compensation Act			2,555	5.92%
2004	Workforce Investment Act Grants			3,763	8.72%
		Risk Total		37,294	86.45%
		Other Outlays		5,845	13.55%
		Outlay Total		43,139	100.00%
	Department of State				
2006	International Narcotics & Law Enforcement		$	313	2.42%
2006	International Information Program			28	0.22%
		Risk Total		341	2.63%
		Other Outlays		12,616	97.37%
		Outlay Total		12,957	100.00%
	Department of Transportation				
2004	Highway Planning/Construction Grants		$	35,571	59.15%
2004	Federal Transportation Formula Grants			1,863	3.10%
2004	Airport Improvement Program			3,842	6.39%
2004	Federal Transportation Capital Investment Grants			3,073	5.11%
		Risk Total		44,349	73.74%
		Other Outlays		15,792	26.26%
		Outlay Total		60,141	100.00%
	Department of the Treasury (IRS only)				
2004	Earned Income Tax Credit		$	42,100	71.51%
		Risk Total		42,100	71.51%
		Other Outlays		16,773	28.49%
		Outlay Total		58,873	100.00%

Table 1: FY 2006 Risk-Susceptible Program Outlays
(Dollar amounts in millions)

1st Year in High-Risk Outlays	Department or Agency		FY 2006 (est.) Outlays ($)	Percentage (%) of Agency Total
	Department of Veterans Affairs			
2004	Compensation/Dependency & Indemnity	$	28,711	41.13%
2004	Pension		3,383	4.85%
2004	Education		2,611	3.74%
2005	Vocational Rehabilitation		583	0.84%
2005	Loan Guaranty		1,137	1.63%
	Risk Total		36,425	52.18%
	Other Outlays		33,383	47.82%
	Outlay Total		69,808	100.00%
	Agency for International Development			
2006	Cash Transfers	$	851	7.45%
2006	Cooperative Agreements, Grants & Contracts		6,846	59.95%
	Risk Total		7,697	67.41%
	Other Outlays		3,722	32.59%
	Total Outlays[1]		11,419	100.00%
	Environmental Protection Agency			
2004	Clean & Drinking Water State Revolving Funds	$	1,963	23.59%
	Risk Total		1,963	23.59%
	Other Outlays		6,359	76.41%
	Outlay Total		8,322	100.00%
	Federal Communications Commission			
2005	Universal Service Fund's Schools and Libraries Program	$	1,707	24.66%
2005	Universal Service Fund's High Cost Support Program		3,760	54.32%
	Risk Total		5,467	78.98%
	Other Outlays		1,455	21.02%
	Outlay Total		6,922	100.00%

Table 1: FY 2006 Risk-Susceptible Program Outlays
(Dollar amounts in millions)

1st Year in High-Risk Outlays	Department or Agency		FY 2006 (est.) Outlays ($)	Percentage (%) of Agency Total
	Office of Personnel Management			
2004	Federal Employees Retirement Program		$ 57,900	44.81%
2004	Federal Employee Health Benefit Programs		31,700	24.53%
2004	Federal Employees Group Life Insurance		1,380	1.07%
		Risk Total	90,980	70.41%
		Other Outlays	38,226	29.59%
		Outlay Total[1]	129,206	100.00%
	Railroad Retirement Board			
2005	Retirement Benefit		9,514	73.20%
2005	Unemployment Insurance		116	0.89%
		Risk Total	9,630	74.09%
		Other Outlays	3,368	25.91%
		Outlay Total[1]	12,998	100.00%
	Small Business Administration			
2004	Small Business Investment Companies		$ 2,709	13.75%
2004	Disaster Loans		11,170	56.67%
2004	(504) Certified Development Company Debentures		4,274	21.69%
2004	7(a) Business Loans		651	3.30%
		Risk Total	18,804	95.41%
		Other Outlays	905	4.59%
		Outlay Total [1]	19,709	100.00%

Table 1: FY 2006 Risk-Susceptible Program Outlays
(Dollar amounts in millions)

1st Year in High-Risk Outlays	Department or Agency		FY 2006 (est.) Outlays ($)	Percentage (%) of Agency Total
	Social Security Administration			
2004	Old-Age, Survivors, & Disability Insurance	$	514,200	87.79%
2004	Supplemental Security Income		39,068	6.67%
	Risk Total		553,268	94.46%
	Other Outlays		32,474	5.54%
	Outlay Total		585,742	100.00%
	Risk Total [2]		1,738,269	65.46%
	Risk Total with Measurement Reported [2]	$	1,413,719	
	Other Outlay Total (including net interest on the public debt) [2]	$	917,166	34.54%
	TOTAL OUTLAYS [3]	$	2,655,435	100.00%

[1] The outlay amounts shown for agencies with credit programs reflect disbursements and/or loan approvals. For example, the actual outlay total for the Small Business Administration (SBA) is $905 million

[2] This figure includes additional funds representing loan approvals that are not included in the overall Federal outlay figure for FY 2006, such as the ones referenced above in Note 1.

[3] The source of the total outlay figure is the Combined Statement of Receipts, Outlays, and Balances, 2006 Combined Statement. The web site is www.fms.treas.gov/annualreport/index.html.

Table 2: Improper Payments Reported in FY 2004 - FY 2006 PARs by Program [1]
(Dollar amounts in millions)

1st Year of Error Rate	Department or Agency	FY 2004 Reported Outlays	FY 2004 Reported Dollars	FY 2004 Reported Percent	FY 2005 Reported Outlays	FY 2005 Reported Dollars	FY 2005 Reported Percent	FY 2006 Reported Outlays	FY 2006 Reported Dollars[3]	FY 2006 Reported Percent
	Department of Agriculture									
2004	Food Stamps	$21,317	$1,613	6.64%	$24,128	$1,432	5.88%	$28,160	$1,645	5.84%
2004	Federal Crop Insurance Program	$2,500	$125	5.00%	$3,170	$28	0.88%	$3,206	$62	1.93%
2005	Marketing Assistance Loan Program				$6,400	$45	0.70%	$7,950	$1,611	20.26%
2005	Loan Deficiency Payments				$453	$5	1.10%	$4,790	$443	9.30%
2005	Wildland Fire Suppression Management[2]				$1,980	$73	3.69%	$285	$7	2.50%
2005	Rental Assistance Program				$846	$27	3.19%	$569	$22	3.50%
2005	Farm Security and Rural Investment				$1,027	$16	1.56%	$1,375	$3	0.22%
2005	Milk Income Loss Program[3]				$245	$0	0.08%			
2006	Child and Adult Care Food Program[2]							$864	$16	1.80%
2006	Direct & Counter-Cyclical Payments							$8,546	$424	4.96%
2006	Conservation Reserve Program							$1,815	$64	3.53%
2006	Farm Service Disaster Programs							$2,365	$291	12.30%
2006	Noninsured Assistance Programs							$109	$25	22.94%
2006	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)							$5,300	$21	0.40%
	Subtotal of Measured Programs	*$23,817*	*$1,738*	*7.30%*	*$38,249*	*$1,626*	*4.25%*	*$65,334*	*$4,634*	*7.09%*
	Department of Defense									
2004	Military Retiree Benefits	$35,800	$34	0.09%	$35,700	$49	0.14%	$35,600	$49	0.14%
2004	Military Health Benefits	$4,600	$100	2.17%	$7,500	$150	2.00%	$7,000	$140	2.00%
2005	Military Pay				$69,100	$432	0.63%	$72,200	$66	0.09%
2006	Civilian Pay							$62,800	$63	0.10%
2006	Travel Pay							$800	$8	1.00%
	Subtotal of Measured Programs	*$40,400*	*$134*	*0.33%*	*$112,300*	*$631*	*0.56%*	*$178,400*	*$326*	*0.18%*
	Department of Education									
2004	Pell Grants	$12,680	$621	4.90%	$12,749	$444	3.48%	$12,117	$422	3.48%
2005	FFEL				$8,626	$190	2.20%	$18,245	$401	2.20%
2005	Title I				$12,740	$139	1.20%	$12,597	$25	0.20%
	Subtotal of Measured Programs	*$12,680*	*$621*	*4.90%*	*$34,115*	*$773*	*2.27%*	*$42,959*	*$848*	*1.97%*
	Department of Health and Human Services									
2004	Medicare FFS [2,4]	$296,800	$21,705	10.10%	$234,100	$12,100	5.17%	$246,800	$10,800	4.38%
2004	Head Start	$6,555	$255	3.89%	$6,865	$110	1.60%	$6,786	$210	3.09%
2005	Foster Care				$1,816	$155	8.60%	$1,750	$134	7.66%
	Subtotal of Measured Programs	*$303,355*	*$21,960*	*7.24%*	*$242,781*	*$12,365*	*5.09%*	*$255,336*	*$11,144*	*4.36%*
	Department of Homeland Security									
2006	Individual and Household Program							$3,902	$334	8.56%
	Subtotal of Measured Programs							*$3,902*	*$334*	*8.56%*

Table 2: Improper Payments Reported in FY 2004 - FY 2006 PARs by Program [1]
(Dollar amounts in millions)

1st Year of Error Rate	Department or Agency	FY 2004 Reported Outlays	FY 2004 Reported Dollars	FY 2004 Reported Percent	FY 2005 Reported Outlays	FY 2005 Reported Dollars	FY 2005 Reported Percent	FY 2006 Reported Outlays	FY 2006 Reported Dollars [3]	FY 2006 Reported Percent
	Department of Housing and Urban Development [4]									
2004	Public Housing/Rental Assistance	$24,581	$1,707	6.90%	$26,069	$1,467	5.63%	$27,242	$1,464	5.37%
2004	Single Family Housing[5]	$382	$26	6.81%						
2006	Community Development Block Grant	$4,924	$5	0.10%	$4,870	$8	0.16%	$4,832	$4	0.09%
	Subtotal of Measured Programs	*$29,887*	*$1,738*	*5.81%*	*$30,939*	*$1,475*	*4.77%*	*$32,074*	*$1,468*	*4.58%*
	Department of Labor									
2004	Unemployment Insurance	$37,335	$3,861	10.34%	$32,248	$3,267	10.13%	$30,976	$3,376	10.90%
2004	Federal Employment Compensation Act	$2,544	$6	0.25%	$2,519	$3	0.13%	$2,555	$1	0.03%
2005	Workforce Investment Act Grants				$3,743	$8	0.21%	$3,763	$6	0.17%
	Subtotal of Measured Programs	*$39,879*	*$3,867*	*9.70%*	*$38,510*	*$3,278*	*8.51%*	*$37,294*	*$3,383*	*9.07%*
	Department of State									
2006	International Narcotics and Law Enforcement							$313	$12	3.96%
2006	International Information Program							$28	$7	23.80%
	Subtotal of Measured Programs							*$341*	*$19*	*5.60%*
	Department of Transportation [6]									
2006	FHWA Highway Planning/Construction Grants							$35,571	$30	0.80%
	Subtotal of Measured Programs							*$35,571*	*$30*	*0.08%*
	Department of the Treasury									
2004	Earned Income Tax Credit[7]	$39,400	See Note 7	See Note 7	$41,300	See Note 7	See Note 7	$42,100	See Note 7	See Note 7
	Subtotal of Measured Programs	*$39,400*			*$41,300*			*$42,100*		
	Department of Veterans Affairs [4]									
2004	Compensation/Dependency & Indemnity	$26,536	$239	0.90%	$26,298	$302	1.16%	$28,711	$306	1.07%
2004	Pension	$3,326	$262	7.9%	$3,391	$282	8.30%	$3,383	$371	10.97%
2004	Education	$2,306	$55	2.4%	$2,316	$70	3.02%	$2,611	$32	1.24%
2004	Insurances[5]	$1,705	$0	0.02%	$1,678	$0	0.02%			
2005	Loan Guaranty				$1,249	$7	0.52%	$1,137	$4	0.31%
2005	Vocational Rehabilitation				$551	$10	1.72%	$583	$6	1.06%
	Subtotal of Measured Programs	*$33,873*	*$556*	*1.64%*	*$35,483*	*$670*	*1.89%*	*$36,425*	*$719*	*1.97%*
	U.S. Agency for International Development									
2006	Cash Transfers				$1,402	$1	0.07%	$851	$7	0.83%
2006	Cooperative Agreements, Grants & Contracts				$4,592	$0	0.00%	$6,846	$15	0.22%
	Subtotal of Measured Programs				*$5,994*	*$1*	*0.02%*	*$7,697*	*$22*	*0.29%*

Table 2: Improper Payments Reported in FY 2004 - FY 2006 PARs by Program [1]
(Dollar amounts in millions)

1st Year of Error Rate	Department or Agency	FY 2004 Reported Outlays	FY 2004 Reported Dollars	FY 2004 Reported Percent	FY 2005 Reported Outlays	FY 2005 Reported Dollars	FY 2005 Reported Percent	FY 2006 Reported Outlays	FY 2006 Reported Dollars[3]	FY 2006 Reported Percent
	Environmental Protection Agency									
2004	Clean & Drinking Water State Revolving Funds	$2,105	$10	0.49%	$1,928	$3	0.16%	$1,963	$4	0.18%
	Subtotal of Measured Programs	*$2,105*	*$10*	*0.49%*	*$1,928*	*$3*	*0.16%*	*$1,963*	*$4*	*0.18%*
	National Science Foundation									
2004	Education/Research Grants[5]	$4,742	$4	0.09%	$4,215	$1	0.02%			
	Subtotal of Measured Programs	*$4,742*	*$4*	*0.09%*	*$4,215*	*$1*	*0.02%*			
	Office of Personnel Management									
2004	Federal Employee Retirement Programs	$52,300	$193	0.37%	$55,612	$152	0.28%	$57,900	$254	0.44%
2004	Federal Employee Health Benefit Programs	$27,200	$87	0.32%	$30,691	$197	0.67%	$31,700	$63	0.20%
2004	Federal Employee Life Insurance Programs	$2,119	$5	0.22%	$2,327	$1	0.17%	$1,380	$1	0.05%
	Subtotal of Measured Programs	*$81,619*	*$285*	*0.35%*	*$88,630*	*$350*	*0.40%*	*$90,980*	*$317*	*0.35%*
	Railroad Retirement Board									
2005	Retirement and Survivor Benefits				$9,198	$173	1.88%	$9,514	$157	1.65%
2005	Railroad Unemployment Insurance Benefits				$111	$3	2.34%	$116	$3	2.33%
	Subtotal of Measured Programs				*$9,309*	*$175*	*1.88%*	*$9,630*	*$160*	*1.66%*
	Small Business Administration									
2004	Small Business Investment Centers	$2,787	$129	4.70%	$1,568	$11	0.67%	$2,709	$0	0.00%
2004	Disaster Assistance Loans	$806	$1	0.13%	$2,231	$2	0.07%	$11,170	$89	0.80%
2004	(504) Certified Development Company Debentures (CDC)[8]	$170	$0	0%	$3,917	$0	0.00%	$4,274	$0	0.00%
2005	7(a) Business Loan (Guarantee Purchase)				$605	$31	5.19%	$651	$10	1.57%
	Subtotal of Measured Programs	*$3,763*	*$130*	*3.46%*	*$8,321*	*$43*	*0.52%*	*$18,804*	*$100*	*0.53%*

Table 2: Improper Payments Reported in FY 2004 - FY 2006 PARs by Program [1]

(Dollar amounts in millions)

1st Year of Error Rate	Department or Agency	FY 2004 Reported Outlays	FY 2004 Reported Dollars	FY 2004 Reported Percent	FY 2005 Reported Outlays	FY 2005 Reported Dollars	FY 2005 Reported Percent	FY 2006 Reported Outlays	FY 2006 Reported Dollars [3]	FY 2006 Reported Percent
	Social Security Administration [4]									
2004	Old-Age, Survivors, & Disability Insurance	$488,000	$1,707	0.34%	$493,300	$3,681	0.74%	$514,200	$3,280	0.64%
2004	Supplemental Security Income	$39,000	$2,639	7.30%	$37,470	$2,910	7.70%	$39,068	$3,028	7.75%
	Subtotal of Measured Programs	*$527,000*	*$4,346*	*0.82%*	*$530,770*	*$6,591*	*1.24%*	*$553,268*	*$6,308*	*1.14%*
Total FY 2004 Programs		$1,142,520	$45,043	3.94%	$1,098,160	$37,170	3.38%	$1,146,443	$36,300	3.17%
Total FY 2005 Programs					$124,684	$1,314	1.05%	$143,222	$2,920	2.04%
Subtotal of Measured Programs Total FY 2004 and 2005 Programs					$1,222,844	$38,484	3.15%	$1,289,665	$39,220	3.04%
Total FY 2006 Programs								$122,413	$1,295	1.06%
Grand Total of FY 2004, 2005, and 2006 Programs								1,412,077.9	$40,515	2.87%

[1] Figures in Table 2 may vary slightly from what was reported in previous years due to rounding as well as updates to figures based upon more current information.

[2] The Wildland Fire Suppression Management and the Child and Adult Care Food Programs reported a component error rate for FY 2006. Therefore, the outlays in this table differ from the total program outlays shown in Table 1 because they represent the component amount measured. Medicare also reports only a component rate in its Fee-For-Service program; however, this component represents nearly 85% of total outlays for this program.

[3] The Milk Income Loss Program was not funded for FY 2006, and therefore, did not report an improper payment rate or amount.

[4] The Department of Housing and Urban Development, the Social Security Administration, and the Veteran's Administration look back one fiscal year when reporting on improper payments. Therefore, the data reported in their FY 2006 PARs represents FY 2005 information. Medicare FFS is reporting on the last six months of FY 2005 and the first six months of FY 2006. Agencies must obtain OMB approval for reporting on other than the most current fiscal year.

[5] After being reported for one year (FY 2004) this program was assessed as no longer being risk susceptible based on the improper payment dollars and rate falling below $10 million and 2.5% as a result of successful corrective actions. NSF and the VA received OMB approval for relief from annual reporting on their former high risk programs until FY 2009.

[6] Since FY 2004, the Department of Transportation has reported only on payments to States as primary recipients. Beginning in FY 2006, FHWA reported improper payments beyond the primary recipient. The additional three grant programs determined to be high risk will begin reporting sub-recipient errors in FY 2007.

[7] The National Research Project analysis based on tax year 2001 data was completed during FY 2005. For FY 2005 reporting purposes, because the data is from more than three years ago, the Treasury Department has "aged" the data to project current and outyear improper payment totals. Based on limitations with this approach, the Treasury Department reports a range, rather than a single point estimate. The relevant ranges are as follows: FY 2004 - $8,668 million to $10,638 million (22% to 27%); FY 2005 - $9,600 million to $11,400 million (23% to 28%); FY 2006 - $9,800 million to $11,600 million (23 to 28%); FY 2007 and FY 2008 - $10,000 million to $11,800 million. For the purposes of deriving government-wide totals, the midpoint of the EITC range is used.

[8] The 504 CDC program may report improper payments starting in FY 2007 based on OMB's revised guidance issued in August 2006 as Appendix C to OMB Circular A-123, Part I, Section A.

Table 3: Improper Payment Measurements for Risk Susceptible Programs not Reported in FY2006
(Dollar amounts in millions)

Department or Agency		FY 2006 Outlays	Measurement Expected
Department of Agriculture			
National School Lunch/Breakfast Program	$	6,506	FY 2007
Department of Health and Human Services			
Medicare Managed Care	$	55,365	FY 2007[1]
Medicaid		182,854	FY 2008
State Children's Health Insurance Program		5,839	FY 2008
Temporary Assistance for Needy Families		17,406	FY 2008
Child Care and Development Fund		4,909	FY 2008
Medicare Prescription Drug Benefit		37,426	To be determined[2]
Department of Transportation			
Federal Transportation Formula Grants	$	1,863	FY 2007
Airport Improvement Program		3,842	FY 2007
Federal Transportation Capital Investment Grants		3,073	FY 2007
Federal Communications Commission			
Universal Service Fund's Schools and Libraries Program	$	1,707	FY 2007
Universal Service Fund's High Cost Support Program		3,760	FY 2007
Outlay Total Where Measurement Not Reported	**$**	**324,550**	
Outlay Total Where Measurement Reported	**$**	**1,413,719**	
Outlay Total for All High Risk Outlays	**$**	**1,738,269**	

[1] HHS will notify OMB by March 2007 whether a component rate will be reported in its FY 2007 PAR.

[2] HHS does not yet have a projected date for error rate reporting for this program.

Table 4: Agency Recovery Auditing Reporting in FY 2006 PARs
(Dollar amounts in thousands)

Department or Agency	Amount Subject to Review for FY 06 PAR	Amount Reviewed and Reported in FY06 PAR	Amount Identified for Recovery	Amount Recovered in FY 06
Agriculture	$ 7,548,665	$ 5,944,665	$ 379	$ 538
Commerce	2,100,000	408	96	96
Defense	299,400,000	299,400,000	170,000	133,300
Education [1]	1,284,654	1,284,654	0	0
Energy	9,620,000	9,620,000	11,900	10,300
HHS	12,600,000	12,600,000	1,600	40
Homeland [2]	13,400,000	11,125,000	502,000	6,016
Hurricane Katrina [3]	*6,747,000*	*4,286,000*	*502,000*	*6,016*
HUD	Not cost-effective to utilize recovery auditing services			
Interior [4]	10,125,000	10,125,000	4,407	506
Justice	11,310,442	8,001,910	1,852	1,734
Labor	Not cost-effective to utilize recovery auditing services			
State	35,591,000	35,591,000	2,397	2,277
Transportation	25,007,231	1,428,544	6,451	45
Treasury	4,622,301	4,216,058	2,305	1,443
VA	6,560,357	5,689,890	39,155	30,379
EPA [5]	6,500,000	6,500,000	0	0
GSA	13,400,000	1,070,000	46,700	45,900
NASA [6]	57,439,000	57,439,000	256,255	139,420
SSA	1,360,000	96,000	178	178
Tennessee Valley Authority [7]	6,519,778	190,864	1,208	1,203
TOTALS	$ 524,388,428	$ 470,322,993	$ 1,542,867	$ 373,375

[1] Previous years' improper payments identified were minimal.

[2] The Department of Homeland Security had little recovery auditing activity during FY 2006 as a result of contractor clearance delays.

[3] The Federal Emergency Management Administration expects the recovery amounts to grow substantially by the end of FY 2007. Pending recoveries (those expected but not yet received) total approximately $258 million as of 11/30/06.

[4] The recovery rate is low as a result of policy issues surrounding recouping funds from Tribal entities.

[5] Only four improper payments identified. Dollars are not statistically significant.

[5] NASA's reported figures did not agree with findings reported by their Office of Inspector General (OIG).

[7] The Tennessee Valley Authority was unable to separate their recovery auditing efforts from their OIG's post-payment contract audits. Therefore, only the OIG's figures are shown in this table.

Table 5: Improper Payments Projected for FY 2007 - FY 2009 as Reported in FY 2006 PARs
(Dollars shown in millions)

Department of Agency	FY 2007 Projected Outlays	FY 2007 Projected Dollars	FY 2007 Projected Percent	FY 2008 Projected Outlays	FY 2008 Projected Dollars	FY 2008 Projected Percent	FY 2009 Projected Outlays	FY 2009 Projected Dollars	FY 2009 Projected Percent
Department of Agriculture									
Food Stamps[1]	$29,169	$1,896	6.50%	$30,097	$1,866	6.20%	$32,680	$1,863	5.70%
Federal Crop Insurance Program	$3,184	$156	4.90%	$3,167	$152	4.80%	$3,170	$149	4.70%
Marketing Assistance Loan Program	$4,565	$822	18.01%	$3,205	$449	14.01%	$10,050	$1,005	10.00%
Loan Deficiency Payments	$4,839	$436	9.01%	$4,258	$255	5.99%	$5,257	$210	3.99%
Wildland Fire Suppression Management	$407	$4	0.98%	$410	$3	0.73%	$406	$2	0.49%
Rental Assistance Program	$769	$26	3.38%	$781	$23	2.94%	$793	$19	2.40%
Farm Security & Rural Investment Programs	$291	$2	0.77%	$482	$3	0.62%	$556	$3	0.54%
Milk Income Loss Program	$351	$56	15.95%	$330	$30	9.09%	NR	NR	NR
Child and Adult Care Food Program	$707	$12	1.75%	$731	$12	1.70%	$753	$12	1.65%
Direct & Counter-Cyclical Payments	$8,962	$538	6.00%	$7,317	$366	5.00%	$6,483	$259	4.00%
Conservation Reserve Program	$1,973	$162	8.21%	$2,100	$126	6.00%	$2,236	$89	3.98%
Farm Service Disaster Programs	$159	$27	16.98%	$192	$31	16.15%	NR	N/R	N/R
Noninsured Assistance Programs[2]	$102	$27	26.47%	$312	$56	17.95%	$309	$53	17.15%
Women, Infants, Children	$3,759	$21	0.55%	$3,909	$20	0.50%	$4,020	$18	0.45%
Department of Defense [4]									
Military Retiree Benefits	$37,800	$49	0.13%	$39,600	$49	0.12%	$41,300	$50	0.12%
Military Health Benefits	$9,000	$180	2.00%	$8,300	$166	2.00%	$8,900	$178	2.00%
Military Pay	$60,300	$303	0.50%	$63,000	$295	0.47%	$64,400	$295	0.46%
Department of Education									
Pell Grants	$12,825	$446	3.48%	$12,825	$446	3.48%	$12,825	$446	3.48%
FFEL	$5,340	$117	2.19%	$5,340	$117	2.19%	$5,340	$117	2.19%
Title I	$12,713	$51	0.40%	$12,713	$51	0.40%	$12,713	$51	0.40%
Department of Health and Human Services									
Medicare FFS	$315,965	$13,586	4.30%	$324,224	$13,617	4.20%	$339,873	$13,935	4.10%
Head Start	$6,789	$95	1.40%	$6,789	$95	1.40%	$6,789	$95	1.40%
Foster Care	$1,761	$133	7.57%	$1,760	$126	7.16%	$1,764	$117	6.65%
Department of Homeland Security									
Individual and Household Program	$2,551	$64	2.51%	$2,551	$51	2.00%	$2,551	$38	1.49%
Department of Housing and Urban Development									
Public Housing/Rental Assistance	$27,601	$1,380	5.00%	$28,511	$855	3.00%	$28,511	$713	2.50%
Community Development Block Grant	$4,599	$10	0.22%	$4,432	$10	0.22%	$4,126	$10	0.24%
Department of Labor									
Unemployment Insurance	$33,020	$3,266	9.89%	$36,240	$3,385	9.34%	$35,702	$3,334	9.34%
Federal Employment Compensation Act	$2,646	$7	0.25%	$2,726	$7	0.24%	$2,743	$7	0.24%
Workforce Investment Act Grants	$3,606	$7	0.19%	$2,975	$6	0.19%	$3,000	$6	0.19%
Department of State									
International Narcotics and Law Enforcement	$322	$0	0.06%	$332	$0	0.06%	$342	$0	0.06%
International Information Program	$29	$3	10.00%	$30	$0	0.83%	$31	$0	0.81%
Department of the Treasury									

Table 5: Improper Payments Projected for FY 2007 - FY 2009 as Reported in FY 2006 PARs
(Dollars shown in millions)

Department of Agency	FY 2007 Projected			FY 2008 Projected			FY 2009 Projected		
	Outlays	Dollars	Percent	Outlays	Dollars	Percent	Outlays	Dollars	Percent
Earned Income Tax Credit[5]	See Note 5	See Note 5	See Note 5	See Note 5	See Note 5	See Note 5	See Note 5	See Note 5	See Note 5
Department of Veterans Affairs									
Compensation/Dependency & Indemnity	$31,217	$325	1.04%	$34,233	$346	1.01%	$36,395	$357	0.98%
Pension	$3,473	$371	10.67%	$3,540	$367	10.36%	$3,589	$296	8.25%
Education	$3,051	$67	2.20%	$3,220	$71	2.20%	$3,393	$71	2.10%
Loan Guaranty	$825	$1	0.11%	$2,321	$7	0.30%	$2,241	$6	0.28%
Vocational Rehabilitation	$614	$6	0.98%	$657	$6	0.91%	$712	$6	0.81%
U.S. Agency for International Development									
Cash Transfers	$1,560	$0	0.03%	$1,707	$0	0.01%	$1,823	$0	0.01%
Cooperative Agreements, Grants & Contracts	$4,903	$2	0.04%	$5,234	$1	0.02%	$5,587	$0	0.00%
Office of Personnel Management [6]									
Federal Employee Retirement Programs	$60,800	$267	0.44%	$64,000	$281	0.44%	$67,300	$296	0.44%
Federal Employee Health Benefit Programs	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Federal Employee Life Insurance Programs	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R	N/R
Railroad Retirement Board									
Retirement and Survivor Benefits	$9,804	$162	1.65%	$10,111	$167	1.65%	$10,400	$172	1.65%
Railroad Unemployment Insurance Benefits	$123	$3	2.35%	$129	$3	2.32%	$136	$3	2.36%
Small Business Administration									
Small Business Investment Centers	$2,500	$50	2.00%	$2,000	$40	2.00%	$1,250	$25	2.00%
Disaster Assistance	$1,200	$9	0.75%	$1,300	$9	0.70%	$1,300	$9	0.25%
(504) Certified Development Company Debentures[7]	$4,200			$4,200			$4,200		
7(a) Business Loan (Guarantee Purchase)	$670	$10	1.54%	$690	$11	1.52%	$710	$11	1.51%
Social Security Administration									
Old-Age, Survivors, & Disability Insurance	$544,511	$2,178	0.40%	$575,933	$2,304	0.40%	$605,759	$2,424	0.40%
Supplemental Security Income	$41,773	$2,422	5.80%	$44,925	$2,471	5.50%	$46,691	$2,428	5.20%
Total	$1,350,028	$38,354	2.84%	$1,406,539	$39,650	2.82%	$1,471,809	$40,078	2.72%

[1]The Food Stamp error rate shown for FY 2007 was established in the FY 2007 President's Budget. This is the reason the reduction targets are higher than the FY 2006 reported error rate.

[2] For WIC the projections are for the vendor error component only. For CACFP, the projections are for the Family Day Care Home tiering error component only.

[3] This projection will be re-estimated based on the 23% rate reported in FY 2006.

[4]DOD did not report projections for Civilian Pay or Travel Pay in their FY 2006 PAR.

[5] The National Research Project analysis based on tax year 2001 data was completed during FY 2005. For FY 2005 reporting purposes, because the data is from more than three years ago, the Treasury Department has "aged" the data to project current and outyear improper payment totals. Based on limitations with this approach, the Treasury Department reports a range, rather than a single point estimate. The relevant ranges are as follows: FY 2004 - $8,668 million to $10,638 million (22% to 27%); FY 2005 - $9,600 million to $11,400 million (23% to 28%); FY 2006 - $9,800 million to $11,600 million (23 to 28%); FY 2007 and FY 2008 and FY 2009 - $10,000 million to $11,800 million. For the purposes of deriving government-wide totals, the midpoint of the EITC range is used.

Table 6: Over and Under Payments in FY 2006 Improper Payment Reporting
(Dollar amounts in millions)

Department or Agency	Over-payments	Under-payments	Gross $	Net $
Department of Agriculture				
Food Stamps	$ 1,276	$ 369	$ 1,645	$ 907
Department of Education				
Pell Grants	$ 303	$ 119	$ 422	$ 184
Department of Health and Human Services				
Medicare	$ 9,800	$ 1,000	$ 10,800	$ 8,800
Department of Housing and Urban Development				
Public Housing/Rental Assistance	$ 1,052	$ 412	$ 1,464	$ 640
Department of Labor				
Unemployment Insurance	$ 3,168	$ 208	$ 3,376	$ 2,960
Department of the Treasury				
EITC	$ See note 1	$ 0	$ See note 1	$ See note 1
Department of Veterans Affairs				
Compensation/Dependency & Indemnity	$ 208.3	$ 97.7	$ 306	$ 111
Pension	361	9.8	371	351
Education	13.8	18.5	32.3	-4.7
Vocational Rehabilitation	2.9	3.3	6.2	-0.4
Office of Personnel Management				
Federal Employee Retirement Programs	$ 178.9	$ 74.6	$ 253.5	$ 104
Federal Employee Health Benefit	61.9	0.6	62.5	61
Federal Employee Life Insurance Programs	0.27	0.48	0.75	0
Social Security Administration				
Old Age, Survivors and Disability Ins.	$ 2,300	$ 980	$ 3,280	$ 1,320
Supplemental Security Income	2,500	528	3,028	1,972
TOTAL	$ 31,926	$ 3,821	$ 35,747	$ 28,105

[1] The Treasury Department reports a range for improper payments. The mid-point of the range is used to compute the totals in this chart. (See Note 6 in Table 2 for additional details.)