

**GAO**

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## **IMPROPER PAYMENTS**

# **Progress Made but Challenges Remain in Estimating and Reducing Improper Payments**

Statement of Kay L. Daly, Director  
Financial Management and Assurance



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Accountability \* Integrity \* Reliability

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Highlights of [GAO-09-628T](#), a testimony before the Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security, Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

GAO's work over the past several years has demonstrated that improper payments are a long-standing, widespread, and significant problem in the federal government. The Improper Payments Information Act of 2002 (IPIA) has increased visibility over improper payments by requiring executive branch agency heads, using guidance from the Office of Management and Budget, to identify programs and activities susceptible to significant improper payments, estimate amounts improperly paid, and report on the amounts of improper payments and their actions to reduce them.

This testimony addresses (1) progress made in agencies' implementation of IPIA for fiscal year 2008, and (2) several major challenges that continue to hinder full reporting of IPIA information. GAO was also asked to provide an overview of Medicare and Medicaid programs' implementation of IPIA. This testimony is based primarily on GAO products, Office of Inspector General (OIG) audit reports, and agencies' fiscal year 2008 reported improper payment information, including information reported by the Department of Health and Human Service's (HHS) Centers for Medicare and Medicaid Services (CMS). GAO also analyzed fiscal year 2008 governmentwide improper payment information to identify trends and reviewed Medicare and Medicaid programs' reported actions to identify, estimate, and reduce improper payments.

To view the full product, including the scope and methodology, click on [GAO-09-628T](#). For more information, contact Kay L. Daly at (202) 512-9095 or [dalykl@gao.gov](mailto:dalykl@gao.gov).

## IMPROPER PAYMENTS

### Progress Made but Challenges Remain in Estimating and Reducing Improper Payments

#### What GAO Found

Agencies reported improper payment estimates of \$72 billion for fiscal year 2008, which represented about 4 percent of the \$1.8 trillion of reported outlays for the related programs. This represents a significant increase from the fiscal year 2007 estimate attributable to (1) a \$12 billion increase in the Medicaid program's estimate and (2) 10 newly reported programs with improper payment estimates totaling about \$10 billion.

- Progress made in estimating and reducing improper payments.** The governmentwide improper payment estimates rose about \$23 billion from fiscal year 2007 to 2008. This represents a positive step to improve transparency over the full magnitude of the federal government's improper payments. Further, of the 35 agency programs reporting improper payment estimated error rates for each of the 5 fiscal years since implementation of IPIA—2004 through 2008—24 programs (or about 69 percent) reported reduced error rates when comparing fiscal year 2008 error rates to fiscal year 2004 error rates. Also, the number of programs with error rate reductions totaled 35 when comparing fiscal year 2008 error rates to fiscal year 2007 rates.
- Challenges remain in meeting the goals of IPIA governmentwide.** The total improper payment estimate does not yet reflect the full scope of improper payments across executive branch agencies; noncompliance issues with IPIA continue; and agencies continue to face challenges in the design or implementation of internal controls critical to identifying and preventing improper payments. The fiscal year 2008 total improper payment estimate of \$72 billion reported for fiscal year 2008 did not include any estimate for ten programs—including the Medicare Prescription Drug Benefit program—with fiscal year 2008 outlays totaling about \$61 billion that were identified as susceptible to significant improper payments. Over half of the agencies' OIGs identified management or performance challenges that could increase the risk of improper payments, including challenges related to effective internal controls.
- Medicare and Medicaid programs' implementation of IPIA and its challenges.** Medicare and Medicaid comprise 50 percent of reported governmentwide improper payments in fiscal year 2008. HHS reported improper payment amounts of \$10.4 billion in Medicare Fee-for-Service and \$6.8 billion in Medicare Advantage. HHS also reported in its agency financial report that it issued its first full-year Medicaid improper payment rate estimate of 10.5 percent, or \$18.6 billion for the federal share of expenditures for fiscal year 2008. This Medicaid improper payment estimate represents the largest amount that any federal agency reported for a program in fiscal year 2008. While CMS has taken steps to enhance its program integrity efforts, further work remains to put in place the internal controls necessary to effectively identify and detect improper payments. For example, GAO's work on Medicare's home health care administration and enrollment of durable medical equipment suppliers found weaknesses that exposed the program to significant improper payments. The magnitude of Medicaid improper payments indicates that CMS and the states face significant challenges in addressing the program's vulnerabilities in estimating national improper payment rates for diverse state-administered programs.

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Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to be here today to discuss the governmentwide problem of improper payments in federal programs and activities and executive branch agencies' efforts to address key requirements of the Improper Payments Information Act of 2002 (IPIA).<sup>1</sup> Since fiscal year 2000, we have issued a number of reports and testimonies aimed at raising the level of attention and corrective actions surrounding improper payments. Our work over the past several years has demonstrated that improper payments have been a long-standing, widespread, and significant problem in the federal government. IPIA has increased visibility over improper payments<sup>2</sup> by requiring executive branch agency heads to identify programs and activities susceptible to significant improper payments,<sup>3</sup> estimate amounts improperly paid under those programs and activities, and report on the amounts of improper payments and their actions to reduce them. As the steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees spend hundreds of billions of taxpayer dollars annually and is responsible for safeguarding those funds against improper payments as well as having mechanisms in place to recoup those funds when improper payments occur.

The Office of Management and Budget (OMB) has played a key role in the oversight of the governmentwide improper payments problem by providing leadership on financial management improvement initiatives. OMB continues its commitment to address governmentwide improper payments by establishing guidance for federal agencies on improper payment reporting,<sup>4</sup> and by working with agencies to establish corrective

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

<sup>2</sup>IPIA defines an improper payment as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible service, any duplicate payment, payments for services not received, and any payment that does not account for credit for applicable discounts.

<sup>3</sup>OMB's guidance defines significant improper payments as those in any particular program that exceed both 2.5 percent of program payments and \$10 million annually.

<sup>4</sup>OMB, Circular No. A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (Aug. 10, 2006).

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action plans and address their root causes. OMB also reports annually on agencies' efforts to address IPIA requirements.

Today, my testimony will focus on three key areas:

- progress federal agencies have made in estimating and reducing improper payments under IPIA for fiscal year 2008,
- several major challenges that continue to hinder full reporting of improper payment information, and
- an overview of Medicare and Medicaid programs' implementation of IPIA.

My testimony today draws primarily from prior GAO reports and testimonies conducted in accordance with generally accepted government auditing standards. We also reviewed agencies' fiscal year 2008 performance and accountability reports (PAR), agency financial reports (AFR), annual reports, and Office of Inspector General (OIG) audit reports. In addition, we reviewed the Department of Health and Human Service's (HHS) AFR and Centers for Medicare and Medicaid Services' (CMS) financial report. Further, we analyzed fiscal year 2008 governmentwide improper payment information to identify trends and reviewed Medicare and Medicaid programs' reported actions to identify, estimate, and reduce improper payments. Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Progress Made in Estimating and Reducing Improper Payments

Federal agencies reported improper payment estimates of \$72 billion for fiscal year 2008, which represented about 4 percent of the \$1.8 trillion of reported outlays for the related programs and a \$23 billion increase from the fiscal year 2007 estimate of about \$49 billion.<sup>5</sup> These efforts represent a positive step to improve transparency over the full magnitude of federal improper payments so that appropriate corrective actions can be put in place. This increase was primarily attributable to (1) a \$12 billion increase in the Medicaid program's estimate for its Fee-for-Service and managed care payments and payments related to incorrect eligibility determinations; and (2) 10 newly reported programs with improper payment estimates totaling about \$10 billion. Of these 10 programs, we identified 4 that had been required by OMB to report selected improper payment information beginning with fiscal year 2003 budget submissions prior to the passage of IPIA.<sup>6</sup> In total, these 4 programs represented \$3.1 billion, or 31 percent, of the approximately \$10 billion in newly reported programs. Further, we noted that agencies consistently identified new programs or activities as risk-susceptible after the first year of IPIA implementation:

- fiscal year 2005—17 new programs or activities,
- fiscal year 2006—15 new programs or activities,
- fiscal year 2007—19 new programs or activities, and
- fiscal year 2008—10 new programs or activities.

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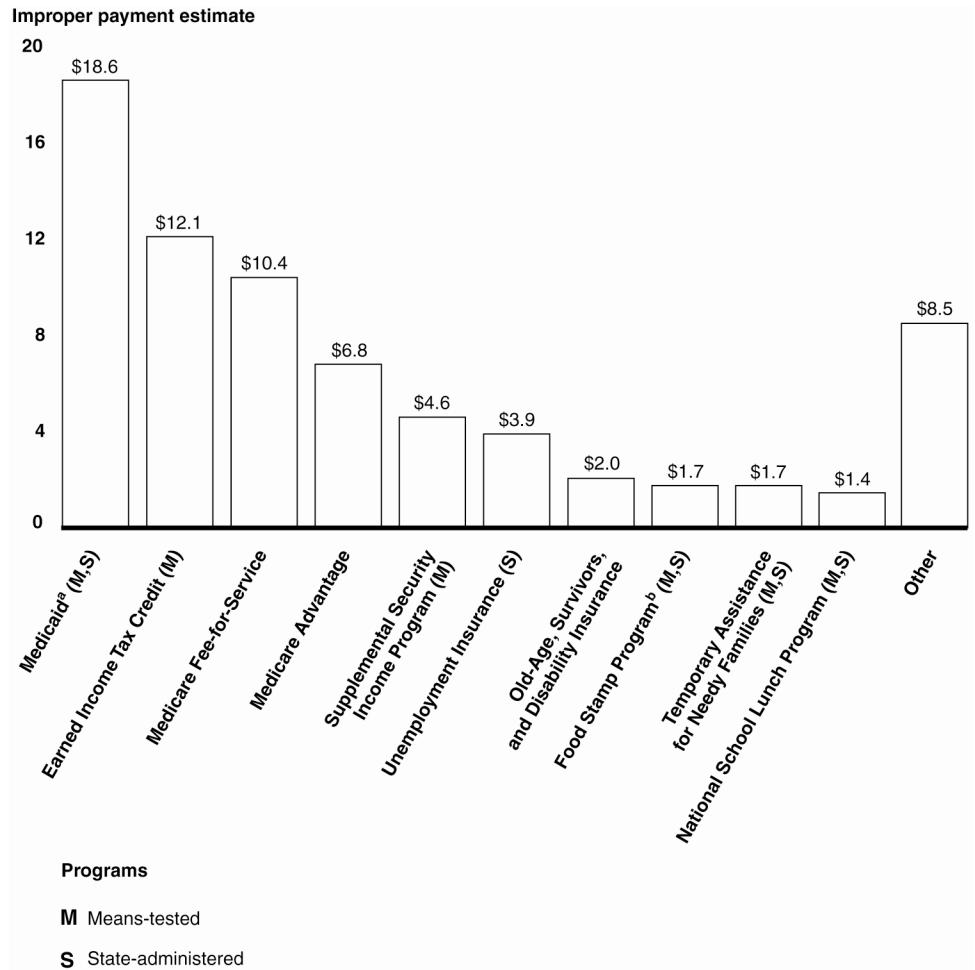
<sup>5</sup>In their fiscal year 2008 PARs, AFRs, or annual reports, certain federal agencies updated their fiscal year 2007 improper payment estimates to reflect changes since issuance of their fiscal year 2007 PARs, AFRs, or annual reports. These updates decreased the governmentwide improper payment estimate for fiscal year 2007 from \$55 billion to \$49 billion, primarily because HHS updated Medicaid's improper payment estimate for fiscal year 2007 from \$12.9 billion (or 18.45 percent error rate) to about \$6.6 billion (or 4.7 percent error rate), a \$6.3 billion decrease (or 13.75 percent error rate decrease). HHS reported in its fiscal year 2008 AFR that the \$12.9 billion estimate for fiscal year 2007 was preliminary based on two quarters (or six months) of fiscal year 2006 claim payments. In fiscal year 2008, HHS completed its review of fiscal year 2006 claim payments and derived a significantly lower error rate of 4.7 percent or \$6.6 billion for fiscal year 2007.

<sup>6</sup>The four programs are: Child Care and Development Fund, State Children's Health Insurance Program, Temporary Assistance for Needy Families, and the Airport Improvement Program. Prior to the governmentwide IPIA reporting requirements beginning with fiscal year 2004, former section 57 of OMB Circular No. A-11 required certain agencies to submit similar information, including estimated improper payment target rates, target rates for future reductions in these payments, the types and causes of these payments, and variances from the targets and goals established. In addition, these agencies were to provide a description and assessment of the current methods for measuring the rate of improper payments and the quality of data resulting from these methods.

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The \$72 billion estimate of improper payments federal agencies reported in fiscal year 2008 encompasses 78 programs spread among 22 agencies (see app. I for further details) and represents about 2.4 percent of total fiscal year 2008 federal executive branch outlays of nearly \$3 trillion. In addition, the majority of the \$72 billion of reported improper payments in fiscal year 2008 is accounted for by ten programs, as shown in figure 1. Specifically, the ten programs account for about \$63 billion or approximately 88 percent of the total estimate.

**Figure 1: Fiscal Year 2008 Improper Payment Estimates by Program (dollars in billions)**



Source: GAO analysis of agencies' fiscal year 2008 PARs, AFRs, or annual reports.

<sup>a</sup>Medicaid's reported improper payment estimate of \$18.6 billion represents the federal share.

<sup>b</sup>The Food Stamp Program's name was recently changed to the Supplemental Nutrition Assistance Program.

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Seven of the 10 programs with the largest improper payment estimates are either means-tested programs,<sup>7</sup> state-administered programs,<sup>8</sup> or both. A common control used by these programs to ensure payment accuracy includes verifying the financial eligibility of the applicant. However, our previous work has shown that the financial eligibility of an applicant can be difficult to verify in means-tested programs, increasing the risk of payment to an ineligible recipient.<sup>9</sup> Specifically, there are differences related to detailed aspects of the income rules such as whose income in a household is counted and the types of income included or excluded in either whole or part. For example, the Supplemental Nutrition Assistance Program (previously Food Stamp Program) considers the income of the entire household, including children aged 18 and over who are not students, in calculating income; whereas several other programs either do not include children's income or exclude portions of their income from consideration. Similar differences exist in state-administered programs as a number of states define additional and unique eligibility requirements beyond what is required at the federal level. Collectively, these multiple variations in approaches to identifying recipients' income for determining program eligibility are likely contributing factors to the high dollar value of improper payments that exist within these programs.

Federal agencies continued to report progress in reducing improper payments in their programs and activities. Of the 35 agency programs reporting improper payment estimated error rates for each of the 5 fiscal years—2004 through 2008—24 programs, or about 69 percent had reduced error rates when comparing fiscal year 2008 error rates to the initial error rates reported for fiscal year 2004. Further, we found the number of programs with error rate reductions totaled 35 when comparing fiscal years 2008 and 2007 error rates. For example, the error rate of the U.S.

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<sup>7</sup>Means-tested programs provide cash and noncash benefits to individuals and families whose income falls below defined levels and who meet certain other eligibility criteria established for each program. Means-tested programs provide assistance in eight areas of need: (1) cash assistance; (2) medical benefits; (3) food and nutrition; (4) housing; (5) education; (6) other services, such as child care; (7) jobs and training; and (8) energy aid.

<sup>8</sup>State-administered programs are federal programs that are managed on a day-to-day basis at the state level to carry out program objectives.

<sup>9</sup>GAO, *Means-Tested Programs: Information on Program Access Can Be an Important Management Tool*, [GAO-05-221](#) (Washington, D.C.: Mar. 11, 2005); *Means-Tested Programs: Determining Financial Eligibility Is Cumbersome and Can Be Simplified*, [GAO-02-58](#) (Washington, D.C.: Nov. 2, 2001).



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Department of Labor's (Labor) Unemployment Insurance (UI) program decreased from 10.3 percent in fiscal year 2007 to 9.96 percent in fiscal year 2008, a \$649 million reduction in estimated improper payments. Labor reported that the leading cause of UI overpayments resulted from claimants who returned to work, yet continued to claim UI benefits. Early detection of these overpayments allows agencies to stop payments sooner and to recover these overpayments more expeditiously. Labor reported that matching Social Security numbers of UI claimants with the Department of Health and Human Services' National Directory of New Hires database is the most effective tool to identify UI program improper payments and had prevented about \$93 million of UI overpayments during fiscal year 2008.

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## Challenges Remain in Meeting IPIA

While federal agencies have shown progress, major challenges remain in meeting the goals of IPIA and ultimately provide reasonable assurance as to the integrity of payments. Specifically, while improved, the total improper payment estimate reported in fiscal year 2008 does not yet reflect the full scope of improper payments across executive branch agencies; noncompliance issues with IPIA implementation continue to exist; and agencies continue to face challenges in the design or implementation of internal controls to identify and prevent improper payments. Not all agencies have yet developed improper payment estimates for all of the programs and activities they identified as susceptible to significant improper payments. As shown in table 1, the fiscal year 2008 total improper payment estimate of \$72 billion did not include any amounts for 10 risk-susceptible programs—including the Medicare Prescription Drug Benefit program—with fiscal year 2008 outlays totaling about \$61 billion.

**Table 1: Risk-Susceptible Programs That Did Not Report Improper Payment Estimates for Fiscal Year 2008**

	<b>Agency—program</b>	<b>Fiscal year 2008 outlays (dollars in millions)</b>	<b>Target date for reporting improper payment estimate</b>
1	Department of Health and Human Services—Medicare Prescription Drug Benefit	46,127.0	Did not report target date
2	Department of Homeland Security—Customs and Border Protection—Custodial—Refund & Drawback and Continued Dumping & Subsidy Offset Act & Payments to Wool Manufacturers	7,118.0	Did not report target date
3	Department of Homeland Security—Federal Emergency Management Agency—Homeland Security Grant Program	2,189.0	2009
4	Department of Homeland Security—Transportation Security Administration—Aviation Security—Payroll	2,012.0	Did not report target date
5	Department of Homeland Security—United States Coast Guard—Contract Payments	1,811.0	Did not report target date
6	Department of Homeland Security—Federal Emergency Management Agency—Public Assistance Programs	1,026.0	2009
7	Department of Homeland Security—Federal Emergency Management Agency—Infrastructure Protection Program	417.0	2009
8	Department of Homeland Security—Federal Emergency Management Agency—Assistance to Firefighters Grants	356.0	2009
9	Department of Homeland Security—Immigration and Customs Enforcement—Investigations	227.0	Did not report target date
10	Department of Homeland Security—Federal Emergency Management Agency—National Flood Insurance Program <sup>a</sup>	53.0	2009
	<b>Total</b>	<b>\$61,336.0</b>	

Source: GAO's analysis of agencies' fiscal year 2008 PARs or AFRs.

<sup>a</sup>GAO placed the National Flood Insurance Program (NFIP) on its high-risk list in March 2006 as the program likely will not generate sufficient revenues to repay the billions borrowed from the Department of Treasury to cover flood claims from the 2005 hurricanes. It is also unlikely that NFIP could cover catastrophic losses in future years should they occur. The insufficient revenues highlight structural weaknesses in how the program is funded.

For fiscal year 2008, a limited number of agency auditors reported on IPIA implementation compliance issues as part of their financial statement audit, although such reporting is not specifically required by IPIA. Specifically, auditors for 4 of the 35 agencies included in our scope reported on agencies' noncompliance with IPIA.<sup>10</sup> Agency auditors reported noncompliance issues related to risk assessments, testing of payment transactions, development of corrective action plans to reduce

<sup>10</sup>The four agencies are the Departments of Defense, Homeland Security, Health and Human Services, and Transportation.

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improper payments, recovering improper payments, and inadequate documentation. Fiscal year 2008 reflected the fifth year that auditors for the Departments of Health and Human Services (HHS) and Homeland Security (DHS) reported IPIA noncompliance issues, including not estimating for all risk-susceptible programs, deficiencies related to testing of payment transactions, and the lack of corrective action plans. Agency auditors at the Department of Transportation (Transportation) and DOD reported noncompliance with IPIA for a third year. For example, Transportation auditors reported that they had not received sufficient documentation by the time of PAR issuance to determine if the department's sampling plan used to estimate improper payments was statistically valid. The auditors for DOD reported for fiscal year 2008, that the department was still in the process of developing procedures to identify improper payments and that its efforts to manage recovery audit contracts had been largely unsuccessful.

As we previously testified before this Subcommittee,<sup>11</sup> separate assessments conducted by agency auditors provided a valuable independent validation of agencies' efforts to implement IPIA. Independent assessments can also enhance an agency's ability to identify sound performance measures, monitor progress against those measures, and help establish performance and results expectations. Without this type of validation or other types of reviews performed by GAO and agency OIGs, it is difficult to reliably determine the full magnitude of deficiencies that may exist in agencies' IPIA implementation efforts.

Agencies continue to face challenges in the design or implementation of internal controls to identify and prevent improper payments. Over half of the OIGs for agencies required to report under IPIA identified management or performance challenges that could increase the risk of improper payments, including challenges related to internal controls. Examples of fiscal year 2008 challenges are highlighted below.

- Department of Transportation—The OIG reported that its audits and investigations continue to find oversight and control deficiencies increasing vulnerability to improper payments, including fraud and abuse, and other ethics issues involving agency officials and contractors, including schemes related to bribery and kickbacks, bid rigging, and over-billing of labor and materials.

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<sup>11</sup>[GAO-08-438T](#).

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- Department of Education—The OIG reported that effective oversight of the agency’s student federal assistance programs has been a long-standing and significant challenge. Specifically, the Education OIG cited control issues related to insufficient numbers of personnel with the necessary skills and ineffective oversight and monitoring of its programs and participants, placing billions of taxpayer dollars at risk of waste, fraud, abuse, and noncompliance.
  - Department of the Treasury—The OIG cited erroneous and improper payments as the sixth top management challenge facing the Internal Revenue Service (IRS). According to the OIG, erroneous and improper payments generally involve improperly paid refunds, tax return filing fraud, or overpayments to vendors or contractors. The Treasury OIG also reported some tax credits, such as the Earned Income Tax Credit (EITC) and the Education Credit, provide opportunities for abuse in income tax claims. The IRS receives a substantial number of excessive or incorrect EITC claims. According to the OIG, the exponential growth in fraud in processing year 2007 presented a challenge for the IRS, which did not have the resources to handle the volume. The OIG noted that if this trend continues over the next few years, the IRS might issue an even greater number of improper refunds, possibly resulting in a significantly increasing annual revenue loss to the federal government.

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## Implementation of IPIA in Medicare and Medicaid Programs

The Department of Health and Human Services (HHS) annually reports on improper payments in its Agency Financial Report (AFR). For fiscal year 2008, HHS reported improper payment estimates for several programs, including Medicare and the Medicaid, which together provide health insurance for one in four Americans. Collectively, HHS reported improper payment estimates for Medicare and Medicaid totaling about \$36 billion for fiscal year 2008.<sup>12</sup> (See figure 1.) This represents about 50 percent of the total \$72 billion in reported improper payments. The Centers for Medicare and Medicaid Services (CMS), a component of HHS, administers Medicare and oversees Medicaid at the federal level. CMS is responsible for IPIA implementation for these programs. CMS reported it has taken steps to address improper payment requirements for its Medicare and Medicaid programs, but more work remains to measure annual improper

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<sup>12</sup>HHS’s estimated improper payments for Medicare and Medicaid do not include an estimate for Medicare Prescription Drug Benefit (Part D). Further, the improper payment estimate for Medicaid represents only the federal share and not the portion funded by the state.

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payments for all its risk-susceptible programs and to design and implement effective internal controls to prevent improper payments.

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## Medicare

Medicare provides health insurance to roughly 44 million elderly and disabled beneficiaries. As HHS's largest program, it represented nearly \$400 billion or almost 60 percent of HHS's outlays for fiscal year 2008. The Medicare Program is comprised of Medicare Fee-for-Service (FFS) which includes Hospital Insurance (Medicare Part A) and Supplementary Medical Insurance (Medicare Part B), Medicare Advantage (Medicare Part C), and Medicare Prescription Drug Benefit (Medicare Part D).

Medicare FFS represents the largest share of Medicare payments and covers an array of items and services including hospital, skilled nursing and home health care; physician services; ambulance services; and medical equipment and supplies. CMS has a long-history of estimating improper payments for its Medicare FFS program that predate IPIA. Beginning in 1996, HHS's Office of Inspector General (OIG) estimated improper payments in the Medicare FFS program as part of its annual financial statement audit. In fiscal year 2003, CMS assumed responsibility for estimating Medicare FFS improper payments and modified the methodology to improve error detection and provide more detailed information on the errors. This coincided with the implementation of the IPIA. For fiscal year 2008, Medicare FFS improper payment estimate totaled \$10.4 billion, or 3.6 percent of benefit payments for the prior year.<sup>13</sup> As part of its testing, CMS reported it determined whether the claim payments complied with Medicare coverage, coding, and billing rules. In its fiscal year 2008 AFR, HHS reported causes of improper payments included provision of medically unnecessary services, incorrect coding, and insufficient documentation.

Medicare Advantage is designed to provide health coverage through private health plans for Medicare beneficiaries who choose to enroll in this option. Fiscal year 2008 marks the first year that CMS reported estimated improper payments for Medicare Advantage, with an error rate of 10.6 percent or \$6.8 billion in estimated improper payments. While HHS's AFR states that medical record reviews were performed, they did not specifically identify the types of attributes tested to identify the improper payments. The causes of improper payments cited were errors in

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<sup>13</sup>The Medicare FFS improper payment estimate is based on a review of 2007 claims.

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transferring data, interpretation of data, payment calculations, and incorrect diagnoses resulting in incorrect beneficiary risk scores.

Medicare Prescription Drug Benefit is an outpatient prescription drug benefit for Medicare beneficiaries who opt to enroll. As we highlighted earlier in this testimony, CMS had not yet estimated an error rate for its Medicare Prescription Drug Benefit, which had total outlays of about \$46 billion for fiscal year 2008.

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## Medicaid

The Medicaid program is a joint federal/state program,<sup>14</sup> administered by the states to provide health insurance to certain low income individuals. Although it was required by OMB to report improper payment information beginning with its fiscal year 2003 budget submission, CMS began reporting estimated improper payments for this program in fiscal year 2007. For fiscal year 2008, CMS estimated improper payments for fee-for-service providers, managed care plans, and for ineligible recipients—and reported an error rate of 10.5 percent or \$18.6 billion as the federal share of these improper payments.<sup>15</sup> Among all federal programs reporting in fiscal year 2008, Medicaid had the highest estimated dollar value of reported improper payments. (See figure 1.) To estimate improper payments for the Medicaid program, CMS developed a multi-faceted strategy that included obtaining claim payment data from the 50 states and the District of Columbia, utilizing a three-year state rotation cycle. Using this methodology, CMS selects 17 states each year to generate and report a national improper payment estimate for Medicaid. CMS reported that the most common causes of Medicaid improper payments resulting from its medical and data processing reviews included insufficient or lack of documentation (which accounted for 90 percent of the errors), pricing errors, and non-covered services. As reported in the fiscal year 2008 AFR, HHS expressed the view that the high percentage of errors related to insufficient documentation follows a trend similar to the early years of the Medicare FFS error rate measurement program. From its eligibility reviews, HHS reported that based on an informal survey of states, caseworker errors and a lack of internal controls were the causes for the errors in eligibility determinations.

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<sup>14</sup>Medicaid is a federal and state program that is financed by the federal government and states according to a formula established in law.

<sup>15</sup>The total Medicaid improper payment estimate for fiscal year 2008 was \$32.7 billion of which \$14.1 billion was the state's share.

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## Management Challenges in Meeting IPIA Requirements

While CMS has made efforts to estimate improper payments, challenges remain to design and implement internal controls to effectively prevent improper payments and to address fraud, waste, and abuse. Since 1990 and 2003, respectively, we have designated Medicare and Medicaid as high risk and included them on our High-Risk list.<sup>16</sup> These programs were designated as high risk in part due to the high level of estimated improper payments and growing concerns about the quality of fiscal oversight, which is necessary to prevent inappropriate spending. Although the Medicare FFS payment error rate has decreased in recent years, HHS OIG raised concerns that the error rates for certain provider types may be understated based on its review of additional medical records and interviews with beneficiaries and providers. CMS has taken steps to enhance its program integrity efforts, but further work remains to put in place the controls necessary to effectively identify and detect improper payments. Our recent work in Medicare continues to identify fraudulent and abusive practices within the program.<sup>17</sup> For example, our review of Medicare's spending on home health care found that home health agencies' practice of upcoding (overstating the severity of a beneficiary's condition), providing kickbacks, and billing for services not rendered contributed to Medicare's home health spending and utilization. We reported that inadequate administration of the Medicare home health benefit left the program vulnerable to improper payments. Likewise, our review of enrollment of Medicare's durable medical equipment suppliers found weaknesses in Medicare's screening process that exposed the program to potentially paying millions of dollars for medical equipment and supplies that were not necessary or were not provided to beneficiaries.

Similarly, challenges exist for the Medicaid program. In fiscal year 2008, the HHS OIG reported that the shared oversight and enforcement activities between multiple federal and state entities create significant challenges to program oversight and integrity. The HHS OIG also reported that CMS's efforts to identify payment errors, their causes, and vulnerabilities in Medicaid is particularly challenging because of the diversity of state programs and the variation in their administrative and control systems.

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<sup>16</sup>GAO, *High-Risk Series: An Update*, [GAO-09-271](#) (Washington, D.C.: January 2009).

<sup>17</sup>GAO, *Medicare: Improvements Needed to Address Improper Payments in Home Health*, [GAO-09-185](#) (Washington, D.C.: Feb. 27, 2009); *Medicare: Covert Testing Exposes Weaknesses in the Durable Medical Equipment Supplier Screening Process*, [GAO-08-955](#) (Washington, D.C. July 3, 2008).

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These findings are consistent with our prior work on federal and state coordination to estimate improper payments for state-administered programs, like Medicaid. Specifically, in April 2006, we reported that communication, coordination, and cooperation among federal agencies and the states are critical factors in estimating national improper payment rates and meeting IPIA reporting requirements for state-administered programs.<sup>18</sup> Further, putting in place a culture of accountability over improper payments and transparency of the issue helps to reduce fraud and address the wasteful spending that results from lapses in controls. As we previously reported,<sup>19</sup> measuring improper payments within the Medicaid program is critical to recouping and reducing them. The magnitude of the program's payment errors indicates that CMS and the states face significant challenges to address the program's vulnerabilities. Identifying and reducing improper payment in Medicaid are important first steps toward improving the integrity of the program.

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## Concluding Observations

In closing, in light of the current fiscal stress and looming deficits, the need to ensure that every federal dollar is spent as intended has never been more important. With more federal dollars flowing into risk-susceptible programs, establishing effective accountability measures is critical. In this regard, implementing strong internal controls can serve as the front-line of defense against improper payments. Nonetheless, effectively identifying improper payments and designing and implementing actions to reduce them are not simple tasks or easily accomplished. Consequently, agencies' efforts to fulfill the requirements of IPIA will require sustained top-level attention and commitment. The ultimate success of the governmentwide effort to reduce improper payments hinges on each federal agency's diligence and commitment to identify, estimate, determine the causes of, take corrective actions, and measure progress in reducing improper payments.

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

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<sup>18</sup>GAO, *Improper Payments: Federal and State Coordination Needed to Report National Improper Payment Estimates on Federal Programs*, [GAO-06-347](#) (Washington, D.C.: Apr. 14, 2006).

<sup>19</sup>[GAO-09-271](#).



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## Contact and Acknowledgments

For more information regarding this testimony, please contact, Kay L. Daly, Director, Financial Management and Assurance, at (202) 512-9095 or by e-mail at [dalykl@gao.gov](mailto:dalykl@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this testimony. Individuals making key contributions to this testimony included Carla Lewis, Assistant Director; F. Abe Dymond; Natasha Guerra; Crystal Lazcano; Christina Quattrociocchi; and Sabrina Springfield.

# Appendix I: Improper Payment Estimates Reported in Agency Fiscal Year 2007 and 2008 Performance and Accountability Reports, Agency Financial Reports, or Annual Reports

	Department or agency	Program or activity	Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)	Fiscal year 2008 total estimate (dollars in millions)	Fiscal year 2008 error rate (percent)
1	Agency for International Development	1 Cash Transfers	3.0	0.2	2.0	0.1
		2 Contracts	96.0	1.2	69.0	1.2
		3 Grants and Cooperative Agreements	0.0 <sup>a</sup>	0.2 <sup>a</sup>	36.0	1.2
2	Department of Agriculture	4 Child and Adult Care Food Program	12.0	1.7	11.0	1.6
		5 Conservation Reserve Program	9.0	0.5	24.0	1.3
		6 Conservation Security Program (previously Farm Security and Rural Investment)	1.0	0.5	0.0 <sup>b</sup>	0.0 <sup>b</sup>
		7 Direct and Counter-Cyclical Payments	37.0	0.4	47.0	0.7
		8 Federal Crop Insurance Corporation Program Fund	63.0	2.7	165.0	4.7
		9 Loan Deficiency Payments	18.0	0.5	0.8	0.6
		10 Marketing Assistance Loan Program	458.0	7.5	92.0	1.8
		11 Milk Income Loss Contract Program	8.0	2.2	0.3	0.2
		12 Miscellaneous Disaster Programs	25.0	6.8	5.0	3.1
		13 National School Lunch Program	1,402.0	16.3	1,449.0	16.6
		14 Noninsured Assistance Program	8.0	13.1	18.0	14.7
		15 Rental Assistance Program	26.0	3.1	35.0	4.0
		16 School Breakfast Program	520.0	24.9	538.0	25.0
		17 Special Supplemental Nutrition Program for Women, Infants, and Children	25.0	0.7	34.0	0.9
		18 Supplemental Nutrition Assistance Program (previously Food Stamp Program)	1,794.0	6.0	1,713.0	5.6
		19 Wildland Fire Suppression Management	13.0	1.0	0.2	0.0 <sup>c</sup>
3		Department of Commerce <sup>d</sup>	20 All programs and activities	0.0	0.0	0.0
4	Department of Defense	21 Civilian Pay	74.6	0.3 <sup>e</sup>	73.9	0.3
		22 Military Health Benefits	88.6 <sup>e</sup>	0.9 <sup>e</sup>	178.0	2.0
		23 Military Pay	416.4 <sup>e</sup>	0.6 <sup>e</sup>	434.6	0.6
		24 Military Retirement Fund	48.7	0.1	44.0	0.1

			Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)	Fiscal year 2008 total estimate (dollars in millions)	Fiscal year 2008 error rate (percent)	
		25	Travel Pay	43.6	1.0	103.0	2.0
5	Department of Education	26	Federal Student Aid—Federal Family Education Loan	384.0 <sup>e</sup>	1.7 <sup>e</sup>	404.0	1.7
		27	Federal Student Aid—Pell Grants	613.0 <sup>e</sup>	4.1 <sup>e</sup>	630.0	3.7
		28	Title I	87.6	0.7	40.0	0.3
6	Department of Energy	29	Payment programs	19.7	0.1	15.3	0.1
7	Environmental Protection Agency	30	Clean Water State Revolving Funds	1.6	0.1	8.3	0.4
		31	Drinking Water State Revolving Funds	0.0 <sup>a</sup>	0.0 <sup>a</sup>	0.0 <sup>a</sup>	0.0 <sup>a</sup>
8	Export-Import Bank of the United States <sup>f</sup>	32	All programs and activities	0.0	0.0	0.0	0.0
9	Farm Credit System Insurance Corporation <sup>g</sup>	33	All programs and activities	0.0	0.0	0.0	0.0
10	Federal Communications Commission	34	Universal Service Fund—High Cost Support Program	620.0	16.5	970.3 <sup>h</sup>	23.3 <sup>h</sup>
		35	Universal Service Fund—Low Income Program	75.5	9.5	75.5 <sup>h</sup>	9.5 <sup>h</sup>
		36	Universal Service Fund—Schools and Libraries	210.0	12.9	232.7 <sup>h</sup>	13.8 <sup>h</sup>
11	Federal Deposit Insurance Corporation <sup>g</sup>	37	All programs and activities	0.0	0.0	0.0	0.0
12	General Services Administration <sup>d</sup>	38	All programs and activities	0.0	0.0	0.0	0.0
13	Department of Health and Human Services	39	Child Care and Development Fund	0.0 <sup>i</sup>	0.0 <sup>i</sup>	573.0	11.5
		40	Foster Care	52.6 <sup>e</sup>	3.3	99.6	6.4
		41	Head Start	89.5 <sup>e</sup>	1.3	206.3	3.0
		42	Medicaid	6,575.0 <sup>e</sup>	4.7 <sup>e</sup>	18,642.0	10.5
		43	Medicare Advantage	0.0 <sup>i</sup>	0.0 <sup>i</sup>	6,848.0	10.6
		44	Medicare Fee-for-Service	10,800.0	3.9	10,400.0	3.6
		45	Medicare Prescription Drug Benefit	0.0 <sup>i</sup>	0.0 <sup>i</sup>	0.0 <sup>i</sup>	0.0 <sup>i</sup>
		46	State Children's Health Insurance Program	0.0 <sup>i</sup>	0.0 <sup>i</sup>	834.4	14.7

Department or agency	Program or activity	Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)	Fiscal year 2008 total estimate (dollars in millions)	Fiscal year 2008 error rate (percent)
14 Department of Homeland Security	47 Temporary Assistance for Needy Families	0.0 <sup>j</sup>	0.0 <sup>j</sup>	1,663.0	9.3
	48 Customs and Border Protection—Custodial—Refund & Drawback and Continued Dumping & Subsidy Offset Act & Payments to Wool Manufacturers	2.0 <sup>e</sup>	0.0 <sup>c,e</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>
	49 Federal Emergency Management Agency—Assistance to Firefighters Grants	0.0 <sup>j</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>
	50 Federal Emergency Management Agency—Homeland Security Grant Program	0.0 <sup>j</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>
	51 Federal Emergency Management Agency—Individuals and Households Program	46.0 <sup>e</sup>	7.2 <sup>e</sup>	42.0	7.0
	52 Federal Emergency Management Agency—Infrastructure Protection Program	0.0 <sup>j</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>
	53 Federal Emergency Management Agency—National Flood Insurance Program	0.0 <sup>j</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>
	54 Federal Emergency Management Agency—Public Assistance Programs	0.0 <sup>j</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>
	55 Federal Emergency Management Agency—Vendor payments	144.0 <sup>e</sup>	7.6 <sup>e</sup>	107.0	7.0
	56 Immigration and Customs Enforcement—Detention and Removal Operations	10.0 <sup>e</sup>	0.9 <sup>e</sup>	13.0	0.8
	57 Immigration and Customs Enforcement—Federal Protective Service	267.0 <sup>e</sup>	36.9 <sup>e</sup>	194.0	26.0
	58 Immigration and Customs Enforcement—Investigations	4.0 <sup>e</sup>	1.9 <sup>e</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>
	59 Transportation Security Administration—Aviation Security—Payroll	2.0 <sup>e</sup>	0.1 <sup>e</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>
	60 United States Coast Guard—Active Duty Military Payroll	21.0 <sup>e</sup>	0.8 <sup>e</sup>	21.0	0.8
61 United States Coast Guard—Contract Payments	0.0 <sup>c</sup>	0.0 <sup>c</sup>	0.0 <sup>j</sup>	0.0 <sup>j</sup>	
15 Department of Housing and Urban Development	62 Community Development Block Grant (Entitlement Grants, States/Small Cities)	0.0 <sup>k</sup>	0.0 <sup>k</sup>	0.0 <sup>k</sup>	0.0 <sup>k</sup>
	63 Low Income Public Housing	322.9	1.2	63.5	0.2
	64 Section 8—Project Based	410.8	1.5	396.5	1.4

Department or agency		Program or activity	Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)	Fiscal year 2008 total estimate (dollars in millions)	Fiscal year 2008 error rate (percent)
		65 Section 8—Tenant Based	785.4	2.9	532.6	1.9
16	Department of the Interior <sup>d</sup>	66 All programs and activities	0.0	0.0	0.0	0.0
17	Department of Justice <sup>d</sup>	67 All programs and activities	0.0	0.0	0.0	0.0
18	Department of Labor	68 Federal Employees' Compensation Act	2.6	0.1	0.5	0.0 <sup>e</sup>
		69 Unemployment Insurance	3,248.0	10.3	3,897.0	10.0
		70 Workforce Investment Act	2.9	0.1	2.5	0.1
19	National Aeronautics and Space Administration	71 Program payments	0.9	0.0 <sup>c</sup>	11.6	0.1
20	National Credit Union Administration <sup>g</sup>	72 All programs and activities	0.0	0.0	0.0	0.0
21	National Science Foundation	73 Research and Education Grants and Cooperative Agreements	0.0 <sup>k</sup>	0.0 <sup>k</sup>	0.0 <sup>k</sup>	0.0 <sup>k</sup>
22	Nuclear Regulatory Commission <sup>d</sup>	74 All programs and activities	0.0	0.0	0.0	0.0
23	Office of Personnel Management	75 Background Investigations Program	0.0 <sup>j</sup>	0.0 <sup>j</sup>	22.2	4.3
		76 Federal Employees Group Life Insurance	0.8	0.1 <sup>e</sup>	0.6	0.1
		77 Federal Employees Health Benefits Program	168.7	0.5	83.7	0.2
		78 Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)	253.5	0.4	245.9	0.4
24	Pension Benefit Guaranty Corporation <sup>d</sup>	79 All programs and activities	0.0	0.0	0.0	0.0
25	United States Postal Service <sup>f</sup>	80 All programs and activities	0.0	0.0	0.0	0.0
26	Railroad Retirement Board	81 Railroad Unemployment Insurance Benefits	2.1 <sup>e</sup>	2.0 <sup>e</sup>	2.3	2.0
		82 Retirement and Survivors Benefits	92.7 <sup>e</sup>	1.0 <sup>e</sup>	95.5	1.0
27	Securities and Exchange Commission	83 Disgorgements and Penalties	0.0 <sup>b</sup>	0.0 <sup>b</sup>	0.0 <sup>b</sup>	0.0 <sup>b</sup>
		84 Operational Vendor Payments	0.0 <sup>c</sup>	0.0 <sup>c</sup>	0.0 <sup>c</sup>	0.0 <sup>c</sup>

				Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)	Fiscal year 2008 total estimate (dollars in millions)	Fiscal year 2008 error rate (percent)
Department or agency	Program or activity						
28	Small Business Administration	85	504 Certified Development Companies (Debentures)	0.0 <sup>b</sup>	0.0 <sup>b</sup>	0.0 <sup>b</sup>	0.0 <sup>b</sup>
		86	504 Certified Development Companies (Guaranties)	0.0 <sup>b</sup>	0.0 <sup>b</sup>	0.0 <sup>b</sup>	0.0 <sup>b</sup>
		87	7(a) Business Loan Program (Guaranty Purchases)	2.6	0.4	6.5	0.5
		88	7(a) Business Loan Program (Guaranty Approvals)	0.0 <sup>b</sup>	0.0 <sup>b</sup>	0.0 <sup>b</sup>	0.0 <sup>b</sup>
		89	Disaster Loan Approvals	4.5	0.6	6.1	0.7
		90	Small Business Investment Companies	4.0	0.2	0.0 <sup>b</sup>	0.0 <sup>b</sup>
29	Smithsonian Institution <sup>g</sup>	91	All programs and activities	0.0	0.0	0.0	0.0
30	Social Security Administration	92	Old Age and Survivors' Insurance	2,504.0	0.5 <sup>e</sup>	1,963.0	0.3
		93	Disability Insurance	0.0 <sup>a</sup>	0.0 <sup>a</sup>	0.0 <sup>a</sup>	0.0 <sup>a</sup>
		94	Supplemental Security Income Program	4,089.0	10.1	4,552.0	10.6
31	Department of State <sup>d</sup>	95	Business Class Travel and Sensitive Payments	0.0 <sup>c,e</sup>	4.0	0.0	0.0
		96	International Information Program—U.S. Speaker and Specialist Program	0.9	4.0	0.0	0.0
32	Tennessee Valley Authority	97	Payment programs	6.6	0.1	6.2	0.1
33	Department of Transportation	98	Federal Aviation—Airport Improvement Program	0.0 <sup>b</sup>	0.0 <sup>b</sup>	1.0	0.0 <sup>e</sup>
		99	Federal Highway—Federal Aid Highway Program	55.2	0.2	55.1	0.2
		100	Federal Transit—Capital Investment Grants	0.6	1.1	87.0	3.1
		101	Federal Transit—Formula Grants	4.3	0.3	47.6	5.6
34	Department of the Treasury	102	Earned Income Tax Credit	11,350.0	25.5	12,100.0	25.5
35	Department of Veterans Affairs	103	Compensation	240.8	0.8	340.2	1.0
		104	Dependency and Indemnity Compensation	0.0 <sup>a</sup>	0.0 <sup>a</sup>	0.0 <sup>a</sup>	0.0 <sup>a</sup>
		105	Education programs	101.0	3.7	63.7	2.2
		106	Insurance programs	0.0 <sup>k</sup>	0.0 <sup>k</sup>	0.0 <sup>k</sup>	0.0 <sup>k</sup>
		107	Loan Guaranty	4.7	0.5	3.9	0.4

Department or agency	Program or activity	Fiscal year 2007 total estimate (dollars in millions)	Fiscal year 2007 error rate (percent)	Fiscal year 2008 total estimate (dollars in millions)	Fiscal year 2008 error rate (percent)
	108 Non-VA Care Civilian Health and Medical Program (CHAMPVA)	12.4 <sup>e</sup>	3.8 <sup>e</sup>	17.1	3.2
	109 Non-VA Care Fee	92.6	5.9	24.8	1.3
	110 Pensions	303.9	8.6	375.1	10.2
	111 Vocational Rehabilitation and Employment Program	4.0	0.7	0.0 <sup>k</sup>	0.0 <sup>k</sup>
	<b>Total</b>	<b>49,286.8</b>		<b>72,095.9</b>	

Source: GAO's analysis of agencies' fiscal year 2007 and fiscal year 2008 performance and accountability reports (PAR), agency financial reports (AFR), or annual reports. Figures were rounded to the nearest tenth for reporting purposes.

<sup>a</sup>Agency combined with program above.

<sup>b</sup>Agency reported that the annual improper payment amount or error rate was zero.

<sup>c</sup>Agency program estimate or error rate rounded to zero for purposes of this testimony.

<sup>d</sup>Agency reported that it had no programs or activities susceptible to significant improper payments.

<sup>e</sup>Fiscal year 2007 estimate or error rate was updated to the revised estimate or error rate reported in the fiscal year 2008 PAR, AFR, or annual report.

<sup>f</sup>Agency did not address improper payments or IPIA in its PAR, AFR, or annual report for fiscal year 2007, fiscal year 2008, or both.

<sup>g</sup>Agency PAR, AFR, or annual report was not available as of the end of fieldwork.

<sup>h</sup>We obtained this amount from the Office of Management and Budget (OMB).

<sup>i</sup>Agency reported that it would estimate improper payments in the future for this program.

<sup>j</sup>Agency did not report an annual improper payment estimate or error rate for this program.

<sup>k</sup>Agency reported that it received a waiver from OMB, exempting it from the requirement to annually report improper payment information, because the program's estimate was below the reporting threshold (exceeding \$10 million and 2.5 percent of program payments) for 2 consecutive years.

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