



Highlights of [GAO-08-438T](#), 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

The federal government is accountable for how its agencies and grantees spend hundreds of billions of taxpayer dollars and is responsible for safeguarding those funds against improper payments and recouping those funds when improper payments occur. The Congress enacted the Improper Payments Information Act of 2002 (IPIA) and section 831 of the National Defense Authorization Act for Fiscal Year 2002, commonly known as the Recovery Auditing Act, to address these issues.

GAO was asked to testify on agencies' efforts to eliminate and recover improper payments. Specifically, GAO focused on (1) progress made in agencies' implementation and reporting under IPIA for fiscal year 2007, (2) major challenges that continue to hinder full reporting of improper payment information, and (3) agencies' efforts to report on recovery auditing and recoup contract overpayments. This testimony is based in part on a recently issued report ([GAO-08-377R](#)) in addition to a further review and analysis of improper payment and recovery auditing information reported in agencies' fiscal year 2007 performance and accountability reports (PAR) or annual reports. The Office of Management and Budget (OMB) provided technical comments which GAO incorporated as appropriate.

To view the full product, including the scope and methodology, click on [GAO-08-438T](#). For more information, contact McCoy Williams at (202) 512-2600 or williamsm1@gao.gov.

IMPROPER PAYMENTS

Status of Agencies' Efforts to Address Improper Payment and Recovery Auditing Requirements

What GAO Found

While agencies have made progress, GAO identified ongoing challenges in key areas related to IPIA and recovery auditing implementation and reporting.

- Progress made in agencies' implementation and reporting under IPIA.** Agencies reported improper payment estimates of about \$55 billion in their fiscal year 2007 PARs or annual reports, an increase from the almost \$41 billion reported in fiscal year 2006. The reported increase was primarily attributable to a component of the Medicaid program reporting improper payments for the first time totaling about \$13 billion, which GAO viewed as a positive step to improve transparency over the full magnitude of improper payments. The \$55 billion estimate consists of 21 agencies reporting for 78 programs, including 19 agency programs or activities reporting for the first time in fiscal year 2007. Further, select agency programs that first reported an error rate in fiscal year 2004 reported an overall decrease in their error rate estimates when compared to fiscal year 2007. OMB noted that further reductions in error rates are expected as agencies take steps to address payment errors resulting from insufficient or no documentation.
- Challenges with IPIA implementation.** Not all agencies reported conducting risk assessments of all of their programs and activities as required under IPIA. Further, agencies have not estimated for 14 risk-susceptible programs with outlays totaling about \$170 billion. Additionally, in some instances, agencies did not measure improper payments for a 12-month period as generally required by OMB's implementing guidance, nor did the estimates reflect improper payments for the entire program. Four agency auditors reported noncompliance issues with IPIA regarding risk assessments, sampling methodologies, corrective actions, recovery of improper payments, and inadequate documentation. Agencies also reported that statutory or regulatory barriers may limit corrective actions to reduce improper payments. Lastly, agencies continue to face challenges in the implementation or design of internal controls to identify and prevent improper payments. Specifically, over half of agencies' Offices of Inspectors General identified management or performance challenges that could increase the risk of improper payments.
- Agencies' efforts to report recovery auditing information continue.** In total, 21 agencies reported identifying about \$121 million in improper payments in fiscal year 2007 for recovery and actually recovering about \$87 million, a decrease of about \$217 million when compared to the reported amount identified for recovery in the prior year. Most of the decrease can be attributed to the Department of Defense's decision to stop reporting voluntary refunds. GAO noted that few agencies reported on corrective action plans to address the root causes of contract payment errors. Also, two agencies reported that conducting recovery audits was not cost beneficial. All but two agencies reported they contracted out recovery audit services, conducted in-house recovery audits, or both. The other two were silent on this on matter.