



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.

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.