



Highlights of [GAO-03-991T](#), a testimony before the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

Why GAO Did This Study

The Subcommittee asked GAO to testify on the implementation of the Improper Payments Information Act of 2002 (PL 107-300) and related Office of Management and Budget (OMB) guidance, and on GAO's strategies to reduce improper payments.

FINANCIAL MANAGEMENT

Effective Implementation of the Improper Payments Information Act of 2002 Is Key to Reducing the Government's Improper Payments

What GAO Found

Improper payments are a longstanding, widespread, and significant problem in the federal government. This past April, OMB estimated improper payments of about \$35 billion annually for major federal benefit programs that made payments in excess of \$1.2 trillion annually. Importantly, this estimate does not account for all federal programs and activities.

The Improper Payments Information Act of 2002 contains requirements in the areas of improper payment identification and reporting. It requires agency heads to annually review all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of their improper payment activities. The legislation also requires OMB to prescribe guidance for federal agency use in implementing the act. OMB issued the guidance in May 2003.

OMB's guidance addresses the specific reporting requirements called for in the act and lays out the general steps agencies are to perform to meet those requirements. The guidance defines key terms used in the law, such as *programs and activities*, and offers criterion that clarify the meaning of the term *significant improper payments*. It requires that agencies use statistical sampling when estimating improper payments and sets statistical sampling confidence and precision levels for estimation purposes. It also requires that agencies report the results of their improper payment activities in their annual Performance and Accountability Report. As with any legislation or implementing guidance, the act's ultimate success hinges on each agency's diligence and commitment to identify, estimate, determine the causes of, take corrective actions, and measure progress in reducing all improper payments.

Our prior work has demonstrated that attacking improper payment problems requires a strategy appropriate to the organization involved and its particular risks. We have found that entities using successful strategies to address their improper payment problems shared a common focus of improving the internal control system—the first line of defense in safeguarding assets and preventing and detecting errors and fraud. The components of the control system are:

- control environment—creating a culture of accountability,
- risk assessment—performing analyses of program operations to determine if risks exist,
- control activities—taking actions to address identified risk areas,
- information and communications—using and sharing relevant, reliable, and timely information, and
- monitoring—tracking improvement initiatives and identifying additional actions needed to further improve program efficiency and effectiveness.

www.gao.gov/cgi-bin/getrpt?GAO-03-991T.

To view the full report, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at 202-512-6906 or williams1@gao.gov.