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FINANCIAL MANAGEMENT

Fiscal Year 2003 Performance and Accountability Reports Provide Limited Information on Governmentwide Improper Payments

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Highlights

Highlights of GAO-04-631T, a testimony before the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

FINANCIAL MANAGEMENT

Fiscal Year 2003 Performance and Accountability Reports Provide Limited Information on Governmentwide Improper Payments

Why GAO Did This Study

The Improper Payments Information Act of 2002 requires that agencies annually review all their programs and activities and identify those that may be susceptible to significant improper payments. It further requires those agencies with improper payments exceeding $10 million to provide a report on the actions being taken to reduce those payments.

This testimony updates agency progress in implementing the act based on our review of agency fiscal year 2003 Performance and Accountability Reports for the 15 agencies and 46 programs previously cited in Office of Management and Budget Circular A-11, Section 57. It required those agencies and programs to report improper payment information to the Office of Management and Budget beginning with their fiscal year 2003 budget proposals.

The areas you asked us to address were (1) agencies that reported improper payments information and the programs and activities on which that information was based, (2) amounts of improper payments reported, (3) initiatives agencies reported taking to reduce those payments and the results of those initiatives, and (4) impediments to the prevention or reduction of improper payments.

What GAO Recommends

We are not making any new recommendations in this testimony.

www.gao.gov/cgi-bin/getrpt?GAO-04-631T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9508 or williamsm1@gao.gov.

What GAO Found

The fiscal year 2003 Performance and Accountability Reports (PAR) typically contained limited amounts of improper payment information even for those programs previously cited in Circular A-11 for which a reporting requirement has existed for at least three years. The PARs contained improper payment estimates for 31 of the 46 programs listed in Circular A-11. They contained information on agency initiatives to prevent or reduce improper payments for 22 programs and on impediments to improper payment prevention or reduction for 11 programs. Seven of 15 agencies reported on all three categories of information requested (improper payment amounts, initiatives taken to reduce or prevent improper payments, and impediments to improper payment prevention or reduction) for 9 of the 46 programs. For 11 of the 46 programs, the four agencies did not report on any of the three elements.

In some cases, agencies reported that they had already determined that their programs were not susceptible to significant improper payments. However, the auditor's reports in the same PARs identified management challenges or material internal control weaknesses within the programs where the design or operation of internal control procedures did not reduce, to a relatively low level, the risk that errors, fraud, or noncompliance that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties.

Key to the effort of reducing improper payments is the need for a strong control environment, including top leadership commitment and sustained attention to achieving results. Since 1982, various legislative and administrative initiatives have focused on and required agency assessments of internal controls over programs and financial management activities. Although these initiatives may not specifically target improper payments, by emphasizing internal controls, they have recognized the importance of internal controls—including a strong control environment—in ensuring that federal programs achieve their intended results and that federal agencies operate them effectively and efficiently.

If diligently and vigorously implemented, the Improper Payments Information Act of 2002 should have a significant impact on the governmentwide improper payments problem. The level of importance each agency, the administration, and the Congress place on the efforts to implement the act will determine its overall effectiveness and the level to which agencies reduce improper payments and ensure that federal funds are used efficiently and for their intended purposes.

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the governmentwide problem of improper payments in federal programs and activities. First, I would like to respond to your request that we highlight and discuss our review of the fiscal year 2003 Performance and Accountability Reports (PAR) of 15 agencies and identify, for 46 programs previously cited in Office of Management and Budget (OMB) Circular A-11, *Preparation and Submission of Budget Estimates*, Section 57, "Information on Erroneous Payments,"[1] the

- agencies that reported improper payments information and the programs and activities on which that information was based,
- amounts of improper payments reported,
- initiatives agencies reported taking to reduce those payments and the results of those initiatives, and
- impediments to the prevention or reduction of the improper payments.

I will then discuss the importance of effective internal control to the success of the Improper Payments Information Act of 2002 (Improper Payments Act).[2] In this regard, it is important to recognize that various legislative and administrative initiatives have called for continuing assessments and improvements in internal control and financial management systems over the past two decades, at least. Meeting the requirements of these initiatives should have resulted in agencies having significant information available on their programs and activities that are susceptible to improper payments.

Background

Before highlighting the results of our review of the fiscal year 2003 PARs, I would like to summarize the requirements of the Improper Payments Act. The act requires the head of each agency to annually review all programs

[1]Section 57 was eliminated from OMB Circular A-11. See OMB Circular A-11, Transmittal Memorandum #77, July 25, 2003. Appendix I lists the 15 agencies and 46 programs previously cited in Section 57.

[2]Pub. L. No. 107-300, 116 Stat. 2350 (Nov. 26, 2002).

and activities that the agency administers and identify all such programs and activities that may be susceptible to significant improper payments. For each program and activity identified, the agency is required to estimate the annual amount of improper payments and submit those estimates to the Congress before March 31 of the following applicable year. The act further requires that for any agency program or activity with estimated improper payments exceeding $10 million, the head of the agency shall provide a report on the actions the agency is taking to reduce those payments.

The Improper Payments Act also required the Director of OMB to prescribe guidance to implement its requirements not later than six months after the date of its enactment (Nov. 26, 2002). OMB issued this guidance on May 21, 2003.[3] It states that each agency shall report the results of its improper payment efforts in the Management Discussion and Analysis section of its PAR for fiscal years ending on or after September 30, 2004. In general, the first set of reports required by the guidance is due in November 2004. Significantly, the guidance issued in May 2003, also required that 15 agencies report improper payment information for 46 programs identified in OMB Circular A-11, publicly in their fiscal year 2003 PARs. Section 57 required agencies to include improper payment[4] information for the agencies and programs in their nonpublic budget submissions to OMB, beginning with the fiscal year 2003 budget proposals. According to OMB, the programs were selected primarily because of their large dollar volume ($2 billion dollars or more in outlays). In July 2003, OMB dropped the requirement for information on erroneous payments and eliminated Section 57 requirements for preparing fiscal year 2005 budget submissions. The information previously called for in the circular includes actual and estimated improper payments and rates, targets for reducing the improper payment rates identified, and corrective action plans to reach the targets.

If diligently and vigorously implemented, the Improper Payments Act should have a significant impact on the governmentwide improper payments problem. The level of importance each agency, the administration, and the Congress place on the efforts to implement the act will determine its overall effectiveness and the level to which agencies

[3]Office of Management and Budget Memorandum M-03-13, "Improper Payments Information Act of 2002 (Public Law 107-300)," May 21, 2003.

[4]OMB's guidance uses the term erroneous payments rather than improper payments. We consider the terms synonymous.

reduce improper payments and ensure that federal funds are used for their intended purposes.

Fiscal Year 2003 PARs Contain Limited Improper Payment Information

As you requested, we reviewed the fiscal year 2003 PARs for the 15 agencies and 46 programs previously cited in OMB Circular A-11, Section 57, to identify the improper payment information contained therein. Table 1 summarizes the improper payment estimates agencies reported in their fiscal year 2003 PARs.

Table 1: Improper Payment Estimates Reported in Agency Fiscal Year 2003 PARs

Agency	Program	Reported amount of improper payments
1. Department of Agriculture (USDA)	1. Food Stamps	$1,507,000,000
	2. Commodity Loan Programs	153,000,000
	3. National School Lunch and Breakfast	o
	4. Women, Infants, and Children	o
2. Department of Defense (DOD)	5. Military Retirement Fund	33,087,000
	6. Military Health Benefits	53,484,000
3. Department of Education (ED)	7. Student Financial Assistance—Pell Grants	377,500,000
	Student Financial Assistance—non-program specific	105,000,000
	8. Title I	o
4. Department of Health and Human Services (HHS)	9. Medicaid	o
	10. Medicare	11,600,000,000
	11. Head Start	o
	12. Temporary Assistance for Needy Families (TANF)	o
	13. Foster Care—Title IV-E	o
	14. State Children's Insurance Program	o
	15. Child Care and Development Fund	o
5. Department of Housing and Urban Development (HUD)	16. Low Income Public Housing	650,000,000
	17. Section 8 Tenant Based	1,215,000,000
	18. Section 8 Project Based	662,000,000
	19. Community Development Block Grant (CDBG) (Entitlement Grants, States/Small Cities)	o
6. Department of Labor (DOL)	20. Unemployment Insurance	4,225,000,000
	21. Federal Employees' Compensation Act (FECA)	9,055,000

(Continued From Previous Page)

Agency	Program	Reported amount of improper payments
	22. Workforce Investment Act	3,066,075
7. Department of Treasury (TREAS)	23. Earned Income Tax Credit (EITC)	10,500,000,000
8. Department of Transportation (DOT)	24. Airport Improvement Program	14,000,000
	25. Highway Planning and Construction	1,400,000
	26. Federal Transit—Capital Investment Grants	32,000,000
	27. Federal Transit—Formula Grants	64,000,000
9. Department of Veterans Affairs (VA)	28. Compensation	129,063,000
	29. Dependency and Indemnity Compensation	o
	30. Pension	250,535,000
	31. Insurance Programs	261,000
10. Environmental Protection Agency (EPA)[a]	32. Clean Water State Revolving Funds	.13% Reported as a rate, no amount
	33. Drinking Water State Revolving Funds	.04% Reported as a rate, no amount
11. National Science Foundation (NSF)	34. Research and Education Grants and Cooperative Agreements	o
12. Office of Personnel Management (OPM)	35. Retirement Program (Civil Service Retirement System (CSRS) and Federal Employees Retirement System (FERS))	177,300,000
	36. Federal Employees Health Benefits Program (FEHB)	28,200,000
	37. Federal Employees Group Life Insurance (FEGLI)	448,000
13. Railroad Retirement Board (RRB)	38. Retirement and Survivors Benefits	168,327,370
	39. Railroad Unemployment Insurance Benefits	2,778,000
14. Small Business Administration (SBA)	40. 7(a) Business Loan Program	13,000,000
	41. 504 Certified Development Companies	None
	42. Disaster Assistance	o[b]
	43. Small Business Investment Companies	o[c]
15. Social Security Administration (SSA)	44. Old Age and Survivors' Insurance	600,000,000
	45. Disability Insurance	340,000,000
	46. Supplemental Security Income (SSI) Program	2,740,000,000
Total	**31 of 46 agency programs reported estimated amounts**	**$35,654,504,445**

Source: Agency fiscal year 2003 Performance and Accountability Reports (data); GAO (analysis).

Note: An "o" indicates that the agency did not report amounts for the program.

[a]Note that although EPA reported improper payment rates instead of a dollar amount, for the purposes of our table and figure, we included EPA as having reported improper payment estimates.

[b]SBA reported improper payment rates and amounts for certain disaster loans; it did not provide a programwide estimate of improper payments.

[c]SBA reported potential improper payment rates and amounts for certain small business investment company transactions; it did not provide a programwide estimate of improper payments.

Further review of the table shows that the PARs contained improper payment estimates for 31 of the 46 agency programs previously listed in Circular A-11. The reports contained information on agency initiatives to prevent or reduce improper payments for 22 programs and on impediments to improper payment prevention or reduction for 11 programs.

Some agencies partially reported required information. Figure 1 presents, by agency program, the level of reporting that we found for the three categories of information you asked about (improper payment amounts; initiatives to prevent improper payments, reduce them, or both; and impediments to preventing or reducing them). As you can see, the level of reporting is literally all over the board.

Figure 1: Level of Agency Improper Payment Reporting by Program

Reporting categories	Reported estimated improper payment amounts	Reported initiatives	Reported impediments	Number of programs in each category	Programs in each category	
3	●	●	●	9	DOL - Unemployment Insurance ED - Student Financial Assistance HHS - Medicare HUD - Low Income Public Housing HUD - Section 8 Project Based	HUD - Section 8 Tenant Based SSA - Disability Insurance TREAS - Earned Income Tax Credit USDA - Food Stamps
2	●	●		10	DOL - FECA DOT - Airport Improvement Program DOT - Highway Planning and Construction EPA - Clean Water State Revolving Funds SBA - 7(a) Business Loan Program	SSA - Old Age Survivors' Insurance SSA - SSI Program VA - Compensation VA - Insurance Programs VA - Pension
	●		●	1	USDA - Commodity Loan Program	
1	●			11	DOD - Military Health Benefits DOD - Military Retirement Fund DOL - Workforce Investment Act DOT - Federal Transit - Capital Investment Grants DOT - Federal Transit - Formula Grants EPA - Drinking Water State Revolving Funds	OPM - Federal Employees Group Life Insurance OPM - Federal Employees Health Benefits Program OPM - Retirement Program (CSRS and FERS) RRB - Retirement and Survivors Benefits RRB - Railroad Unemployment Insurance Benefits
		●		3	NSF - Research and Education Grants and Cooperative Agreements USDA - Women, Infants, and Children VA - Dependency and Indemnity Compensation	
			●	1	USDA - National School Lunch and Breakfast	
0				11	ED -Title 1 HHS - Child Care and Development Fund HHS - Foster Care-Title IV-E HHS - Head Start HHS - Medicaid HHS - State Children's Insurance Program	HHS - TANF HUD - CDBG (Entitlement Grants, States/Small Cities) SBA - 504 Certified Development Companies SBA - Disaster Assistance SBA - Small Business Investment Companies

- Reported all three categories
- Reported two categories
- Reported one category
- Reported no categories

Source: GAO.

Further, although agencies may have met the reporting requirements for particular programs by addressing them in PARs, in many cases, the information reported was limited to agency plans for future measures that may not come about. In some cases, agencies reported that they had already determined that programs were not susceptible to significant improper payments, despite the fact that the auditor's reports in the same PARs identified management challenges, or material internal control weaknesses within the programs where the design or operation of an internal control procedure did not reduce, to a relatively low level, the risk that errors, fraud, or noncompliance that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties. This situation appears contradictory.

Although OMB has required agencies to perform various improper-payment-related identification and corrective action activities for the past three years for these 46 programs, figure 1 shows that only seven agencies reported all of the required elements you asked about—estimated amounts, initiatives taken to reduce improper payments, and impediments to improper payment prevention or reduction—representing only 9[5] of the 46 programs (20 percent). One of the agencies, for one of its programs, reported estimated improper payment amounts, discussed ongoing collaborative efforts made with and between program partners (such as state agencies) to improve payment accuracy and to share "best practice" information, and further reported that recent legislation weakened the penalties imposed on program partners for high error rates and reduced the incentives offered for lower rates. Another agency reported an improper payment amount for three of its four required programs, reported initiatives such as improving program guidance and training, and addressed impediments such as the lack of available income data needed to verify applicant-provided income information. A third agency reported an estimate for one of its three required programs, and further reported initiatives including promoting and funding data exchanges with program partners, and reported that its principal impediment was the cost of detecting eligibility issues.

[5]The nine programs are (1) DOL – Unemployment Insurance, (2) ED – Student Financial Assistance, (3) HHS – Medicare, (4) HUD – Low Income Public Housing, (5) HUD – Section 8 Project Based, (6) HUD – Section 8 Tenant Based, (7) SSA – Disability Insurance, (8) TREAS – Earned Income Tax Credit, and (9) USDA – Food Stamps.

For 10[6] of the 46 programs represented in six agencies, the agencies estimated improper payment amounts and initiatives taken to reduce improper payments, but did not address any impediments. For one program, an agency estimated improper payments and discussed initiatives to correct benefit computation errors and beneficiary earnings test improvements. Another is performing annual on-site reviews. One agency reported an improper payment amount for a program and discussed initiatives, such as implementing an automated system to identify coding and billing errors. Other initiatives reported by agencies included conducting recovery audits, collaborating with other federal agencies to identify and recover payments made to ineligible beneficiaries, and issuing policy notices and providing training to agency personnel on program processes.

Six agencies reported estimated amounts for 11[7] programs, but did not discuss initiatives taken to reduce improper payments and impediments to preventing or reducing improper payments. For three programs, agencies reported no estimated amounts or impediments, but did discuss initiatives taken to reduce improper payments, such as expanding annual post award monitoring and oversight processes. One agency did not report estimated improper payment amounts or discuss initiatives taken to reduce improper payments for one of its programs but identified some of the impediments it has encountered in preventing or reducing them, such as the unavailability of the data necessary to accurately measure improper payments.

[6]The 10 programs are (1) DOL – FECA, (2) DOT – Airport Improvement Program, (3) DOT – Highway Planning and Construction, (4) EPA – Clean Water State Revolving Funds, (5) SBA – 7(a) Business Loan Program, (6) SSA – Old Age Survivors' Insurance, and (7) SSA – SSI Program, (8) VA – Compensation, (9) VA – Insurance Programs, and (10) VA -- Pension.

[7]The 11 programs are (1) DOD – Military Health Benefits, (2) DOD – Military Retirement Fund, (3) DOL – Workforce Investment Act, (4) DOT – Federal Transit-Capital Investment Grants, (5) DOT – Federal Transit-Formula Grants, (6) EPA – Drinking Water State Revolving Funds, (7) OPM- Federal Employees Group Life Insurance, (8) OPM – Federal Employee's Health Benefits Program, (9) OPM – Retirement Program (CSRS and FERS), (10) RRB – Retirement and Survivor Benefits, and (11) RRB – Unemployment Insurance.

For 11[8] of the 46 programs for which agencies were required to report improper payment information in their fiscal year 2003 PARs, four agencies did not report estimated amounts, initiatives taken to reduce improper payments, or impediments to preventing or reducing improper payments, even though OMB Circular A-11, Section 57, originally required agencies to report improper payment data, assessments, and action plans with their initial budget submissions since July 2001. One agency reported, "… erroneous payments are very unlikely … limited to instances of fraud… " Agencies for several programs reported only that they were continuing to develop improper payment error rates, but reported no further information.

Stronger Internal Control Systems Are Key to Reducing Governmentwide Improper Payments

In October 2001, we issued an executive guide on strategies to manage improper payments that was based on the results of information that we obtained from public and private sector organizations that identified and took actions designed to reduce improper payments in their programs.[9] We found that the actions that these organizations took shared a common focus of improving the internal control system over problem areas. This system consists of five primary components—the control environment, risk assessments, control activities, information and communications, and monitoring. Internal controls are not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis. People make internal controls work, and responsibility for good internal control rests with all managers.

One of the biggest hurdles that many entities face in the process of managing improper payments is overcoming the tendency to deny the problem. It is easy to rationalize avoiding or deferring action to address a problem if you do not know how big the problem is. The nature and magnitude of the problem—determined through a systematic risk assessment process—needs to be determined and openly communicated to all relevant parties. When this occurs, especially in a strong control

[8]The 11 programs are (1) ED – Title I, (2) HHS – Medicaid, (3) HHS – Head Start, (4) HHS – TANF, (5) HHS – Foster Care-Title IV-E, (6) HHS – State Children's Insurance Program, (7) HHS – Child Care and Development Fund, (8) HUD – CDBG (Entitlement Grants, States/Small Cities), (9) SBA – 504 Certified Development Companies, (10) SBA – Disaster Assistance, and (11) SBA – Small Business Investment Companies.

[9]U.S. General Accounting Office, *Strategies to Manage Improper Payments: Learning From Public and Private Sector Organizations*, GAO-02-69G (Washington, D.C.: October 2001).

environment, denial is no longer an option, and managers have the information, as well as the incentive, to begin addressing improper payments.

The Federal Managers' Financial Integrity Act of 1982 Set Internal Control Review and Reporting Requirements

Fraud, waste, and abuse in federal activities and programs lead to the loss of billions of dollars of government funds, erode public confidence, and undermine the federal government's ability to operate effectively. Unfortunately, that assessment comes from a 1985 GAO report[10] on federal agencies implementation of 31 U.S.C. 3512 (c), (d) (commonly referred to as the Federal Managers' Financial Integrity Act of 1982 (Financial Integrity Act)). Continuing concern over the poor condition of government internal controls and accounting systems led the Congress to pass this legislation that requires, among other things, ongoing evaluations and reports on the adequacy of the systems of internal accounting and administrative control of each executive agency. It requires the head of each agency to issue an annual report that identifies material weaknesses identified through the assessment process and the actions planned to correct those weaknesses.

An August 1984 GAO report[11] that summarized the results of our governmentwide review of agencies' efforts to implement the Financial Integrity Act found that agencies made a good start in the first year of assessing their internal control and accounting systems and have demonstrated a management commitment to implementing the act. Top agency and OMB managers were becoming involved. The report characterized the first-year effort as a learning experience and noted that much remained to be done to complete the evaluation process and correct the problems identified. Our 1984 review of the material weaknesses identified in the annual reports of 17 major agencies revealed that

- 16 agencies reported accounting/financial management system weaknesses;
- 14 agencies reported procurement weaknesses;

[10]U.S. General Accounting Office, *Financial Integrity Act: The Government Faces Serious Internal Control and Accounting Systems Problems*, GAO/AFMD-86-14 (Washington, D.C.: Dec. 23, 1985).

[11]U.S. General Accounting Office, *Implementation of the Federal Managers' Financial Integrity Act: First Year*, GAO/OCG-84-3 (Washington, D.C.: Aug. 24, 1984).

- 13 agencies reported property management weaknesses;
- 12 agencies reported cash management weaknesses;
- 12 agencies reported grant, loan, and debt collection management weaknesses; and
- 8 agencies reported eligibility and entitlement weaknesses.

We concluded that, since the initial work in implementing the act had been accomplished, agencies needed to develop comprehensive plans to correct the material weaknesses identified. Correction of problems represents the "bottom line" of the act. We further recognized that many of the weaknesses identified were long-standing. They did not develop overnight, and their solutions would not be easy. It would take a sustained, high-priority commitment. In commenting on this report, OMB agreed that a long-term commitment to improving internal control was necessary and that weaknesses identified in the first year must be corrected.

In our December 1985 report, we cited a congressional committee report on the first-year implementation of the Financial Integrity Act, based on a May 22, 1984, hearing held by the Subcommittee on Legislation and National Security, House Committee on Government Operations, on federal efforts to improve internal control and accounting systems and on the Financial Integrity Act's implementation, that stated the following:

> "According to the testimony, a good beginning has been made toward implementing the Act. It is clear, however, that much more remains to be done …. This year agencies began the review process. Now, they must improve on the work they did last year and conduct in-depth internal control reviews. Above all, corrective actions must be taken on the deficiencies found."[12]

In our report, we noted that, while the act required agency heads to report material weaknesses in their annual reports, the annual reviews conducted identified significant numbers of less serious internal control weaknesses. For example, although Treasury did not report any additional material weaknesses in its 1984 annual statement, its component bureaus identified 89 weaknesses that they considered material and reported 127 associated

[12]House Government Operations Committee, House of Representatives, *First Year Implementation of the Federal Managers' Financial Integrity Act*, H.R. Rep. No. 98-937 (1984).

corrective actions. According to Treasury's 1984 annual statement, the bureaus had completed 46 (36 percent) of these 127 corrective actions. Similarly, the military services identified and reported correcting thousands of control weaknesses at lower levels. Army managers, for example, reported correcting 3,600 internal control weaknesses in 1984 that were not considered to be material from an agency perspective.

In November 1989 testimony,[13] former Comptroller General Charles A. Bowsher again addressed this issue by noting that based on the results of the internal control assessments and examinations of the systems problems that agencies have reported and that GAO and federal audit organizations have identified in their audit reports, it is evident that

- the government does not currently have the internal control and accounting systems necessary to effectively operate many of its programs and safeguard its assets;
- many weaknesses are long-standing and have resulted in billions of dollars of losses and wasteful spending;
- major government scandals and system breakdowns serve to reinforce the public's perception that the federal government is poorly managed, with little or no control over its activities; and
- top-level officials must provide leadership if this situation is to change.

In summary, during the 1980s, federal agencies conducted significant numbers of internal control assessments and identified and reported taking corrective actions to eliminate the weaknesses found. Yet, at the end of the decade, controls remained inadequate and these weaknesses resulted in billions in losses and wasteful spending. Significantly, the final item cited by Mr. Bowsher in his 1989 testimony is indicative of a weak control environment. Our past work has shown that the control environment is perhaps the most significant component of internal control to the identification, development, and implementation of activities to reduce improper payments. As pointed out in our executive guide on managing improper payments, without this top-level leadership, the outlook for

[13]U.S. General Accounting Office, *Federal Internal Control and Financial Management Systems Remain Weak and Obsolete*, GAO/T-AFMD-90-9 (Washington, D.C.: Nov. 29, 1989).

overall improvements in the governmentwide effort to reduce improper payments is limited.

Initiatives since 1990 Have Also Emphasized the Importance of Strong Internal Controls

From the early 1990s to the present, additional initiatives called for actions to strengthen internal controls over federal programs and financial management activities. The Chief Financial Officers Act (CFO) of 1990[14] as expanded by the Government Performance and Results Act of 1993 (GPRA);[15] the Government Management Reform Act of 1994;[16] and the President's Management Agenda are a few of these initiatives. Our reports that discuss these initiatives may not specifically focus on improper payments and agency efforts to reduce such payments but they do discuss agency internal controls over various programs, activities, or both and actions to identify weaknesses in those controls and to design and implement actions to eliminate those weaknesses. Therefore, there is a direct relationship between agency activities regarding those initiatives and agency actions to implement the Improper Payments Act.

In recent testimony before this subcommittee on the fiscal year 2003 U.S. government financial statements,[17] Comptroller General David M. Walker noted that certain material weaknesses[18] in internal control and in selected accounting and reporting practices resulted in conditions that continued to prevent GAO from being able to provide the Congress and American citizens with an opinion as to whether the consolidated financial statements of the U.S. government are fairly stated in conformity with U.S. generally accepted accounting principles. One of these material weaknesses involved improper payments that, based on the limited information available, exceeded $35 billion annually. The testimony noted

[14]Pub. L. No. 101-576, 104 Stat. 2838 (Nov. 15, 1990).

[15]Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993).

[16]Pub. L. No. 103-356, 108 Stat. 3410 (Oct. 13, 1994).

[17]U.S. General Accounting Office, *Fiscal Year 2003 U.S. Government Financial Statements: Sustained Improvement in Federal Financial Management Is Crucial to Addressing Our Nation's Future Fiscal Challenges*, GAO-04-477T (Washington, D.C.: Mar. 3, 2004).

[18]A material weakness is a condition that precludes the entity's internal control from providing reasonable assurance that misstatements, losses, or noncompliance material in relation to the financial statements or to stewardship information would be prevented or detected on a timely basis.

that without a systematic measurement of the extent of improper payments, federal agency management cannot determine (1) if improper payment problems that require corrective action exist, (2) mitigation strategies and the appropriate amount of investments to reduce them, and (3) the success of efforts implemented to reduce improper payments.

GPRA is the centerpiece of a statutory framework that the Congress put in place during the 1990s to help resolve the long-standing management problems that have undermined the federal government's efficiency and effectiveness and to provide greater accountability for results. GPRA was intended to address several broad purposes, including strengthening the confidence of the American people in their government; improving federal program effectiveness, accountability, and service delivery; and enhancing congressional decision making by providing more objective information on program performance.

It has resulted in a great deal of progress in making federal agencies more results oriented, but numerous challenges still exist. Top leadership commitment and sustained attention to achieving results, both within the agencies and at OMB, is essential to GPRA implementation.[19] Top leadership commitment is a characteristic of a positive control environment. This again raises the issue of the adequacy of the control environment at federal agencies. Leadership commitment is important, not only to GPRA implementation, but other management activities and initiatives, including successful implementation of the Improper Payments Act. Our executive guide on managing improper payments identified a positive control environment as perhaps the most significant element critical to the identification, development, and implementation of activities to reduce improper payments. The guide can provide useful information to leaders in formulating and implementing their programs to reduce improper payments.

[19]U.S. General Accounting Office, *Results-Oriented Government: GPRA Has Established a Solid Foundation for Achieving Greater Results*, GAO-04-38 (Washington, D.C.: Mar. 10, 2004).

In an October 2003 report on governmentwide efforts to address improper payment problems,[20] we noted that, as part of the President's Management Agenda, officials at OMB told us that they had met with officials from all relevant agencies to provide assistance and to ensure that agencies (1) understood the requirements set forth in its guidance for implementing the Improper Payments Act, (2) have started to inventory their programs and activities for significant risk of improper payments, (3) understand the risk assessment process, and (4) understand the reporting requirements under the Improper Payments Act. In that report, we concluded that the governmentwide effort to identify and assess the magnitude of improper payments, to take actions to reduce those payments, and to publicly report the results of those efforts is generally in its infancy. We further reported that although OMB Circular A-11 had required 14 CFO Act agencies to report selected improper payment information on 44 programs[21] to OMB beginning with their fiscal year 2003 budget submissions, those agencies had completed risk assessments for only 15 of the programs, despite the Congress's mandate in 1982 through the Financial Integrity Act that agencies continually assess their internal control systems and report annually on their adequacy. Since the issuance of our October 2003 report, federal agencies have issued their fiscal year 2003 PARs. As I discussed earlier in this testimony, the fiscal year 2003 PARs typically contained limited amounts of improper payment information even for those programs previously cited in Circular A-11 for which a reporting requirement has existed since agency submissions of their fiscal year 2003 budgets to OMB.

Our executive guide on managing improper payments recognized that in federal agencies, implementation of a strong system of internal control will likely not be easy or quick and will require strong support and continuous action from the President, the Congress, top-level administration appointees, and agency management officials. Once committed to a plan of action, they must remain steadfast supporters of the end goals and their support must be transparent to all. Agencies must be held accountable for appropriately managing and controlling their programs and safeguarding program assets. OMB must continue to provide direction and support to

[20]U.S. General Accounting Office, *Financial Management: Status of the Governmentwide Efforts to Address Improper Payment Problems*, GAO-04-99 (Washington, D.C.: Oct. 17, 2003).

[21]Our scope in that report was limited to only the 23 CFO Act agencies, of which 14 agencies and 44 programs were previously cited in OMB Circular A-11, Section 57. We did not review the Railroad Retirement Board.

agency management in the implementation of governmentwide efforts, such as those involving improper payments, and conduct appropriate oversight of federal agency efforts to meet their stewardship and program management responsibilities. It is also critical that the Congress continue its oversight, through public hearings such as this one, to make it clear to agency and OMB officials that efforts to reduce improper payments are expected and that failure to do so is not an option.

Conclusions

Since 1982, various legislative and administrative initiatives have focused on and required agency assessments of internal controls over programs and financial management activities. Although these initiatives may not specifically target improper payments, by emphasizing internal controls, they have recognized the important role that internal controls have in ensuring that federal programs achieve their intended results and that federal agencies operate them effectively and efficiently. Given this long-standing emphasis on internal control and the various long-standing requirements to identify and implement actions to correct control system weaknesses identified, it is fair to ask two questions. First, is it reasonable to expect that federal agencies have significant information on the condition of internal controls over their programs and activities? Second, should agencies be able to identify their programs and activities that are susceptible to improper payments and to meet the other requirements established by the Improper Payments Act? Based on the legislative and administrative initiatives over the past 20-plus years, I think that the answer to both is an emphatic yes.

Many positive improvements have resulted from the various initiatives related to internal control and financial management over the past 20-plus years. However, I am concerned that we continue to see a trend in agency actions to address internal control problems. Agencies often get off to a good start, but they do not sustain their efforts. Given this history and the unknown and potentially significant magnitude of improper payments governmentwide, it is clear that we are facing a major management challenge in adequately addressing the problem. The needed governmentwide initiatives are in place, they must now be effectively implemented. Key to this effort is the need for a strong control environment that creates a culture of accountability and establishes a positive and supportive attitude toward reducing improper payments.

This concludes my prepared statement. I would be pleased to respond to any questions that you or other Members of the Subcommittee may have.

Contacts and Acknowledgments

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Agencies and Programs for Which OMB Circular A-11 Required Erroneous Payment Information for Fiscal Year 2003

1. Department of Agriculture

1. Food Stamps
2. Commodity Loan Program
3. National School Lunch and Breakfast
4. Women, Infants, and Children

2. Department of Defense

5. Military Retirement
6. Military Health Benefits

3. Department of Education

7. Student Financial Assistance
8. Title I

4. Department of Health and Human Services

9. Head Start
10. Medicare
11. Medicaid
12. TANF
13. Foster Care – Title IV-E
14. State Children's Insurance Program
15. Child Care and Development Fund

5. Department of Housing and Urban Development

16. Low Income Public Housing
17. Section 8 Tenant Based
18. Section 8 Project Based
19. Community Development Block Grants (Entitlement Grants, States/Small Cities)

6. Department of Labor

20. Unemployment Insurance
21. Federal Employee Compensation Act
22. Workforce Investment Act

7. Department of the Treasury

23. Earned Income Tax Credit

8. Department of Transportation

24. Airport Improvement Program
25. Highway Planning and Construction
26. Federal Transit – Capital Investment Grants
27. Federal Transit – Formula Grants

(Continued From Previous Page)

9. Department of Veterans Affairs

28. Compensation
29. Dependency and Indemnity Compensation
30. Pension
31. Insurance Programs

10. Environmental Protection Agency

32. Clean Water State Revolving Funds
33. Drinking Water State Revolving Funds

11. National Science Foundation

34. Research and Education Grants and Cooperative Agreements

12. Office of Personnel Management

35. Retirement Program (Civil Service Retirement System and Federal Employees' Retirement System)
36. Federal Employees Health Benefits Program
37. Federal Employees' Group Life Insurance

13. Railroad Retirement Board

38. Retirement and Survivors Benefits
39. Railroad Unemployment Insurance Benefits

14. Small Business Administration

40. 7(a) Business Loan Program
41. 504 Certified Development Companies
42. Disaster Assistance
43. Small Business Investment Companies

15. Social Security Administration

44. Old Age and Survivors' Insurance
45. Disability Insurance
46. Supplemental Security Income Program

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