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January 23, 2008

The Honorable Tom Carper  
Chairman  
The Honorable Tom Coburn  
Ranking Member  
Subcommittee on Federal Financial Management, Government Information,  
Federal Services, and International Security  
Committee on Homeland Security and Governmental Affairs  
United States Senate

Subject: *Improper Payments: Federal Executive Branch Agencies' Fiscal Year 2007  
Improper Payment Estimate Reporting*

In the fourth year of implementation of the Improper Payments Information Act of 2002<sup>1</sup> (IPIA), major executive branch agencies reported a total improper payment estimate of about \$55 billion for fiscal year 2007. (See the enclosure for further details.) This increase from the prior year estimate of \$41 billion<sup>2</sup> was primarily attributable to a component of the Medicaid program reporting improper payments for the first time totaling about \$13 billion for fiscal year 2007. We view this increased reporting as a positive step to improve transparency over the full magnitude of improper payments across the federal government.

As you requested, the objective of this report is to provide summary data and preliminary analysis of the improper payment estimates reported by federal executive branch agencies (federal agencies) in their fiscal year 2007 performance and accountability reports (PAR) or annual reports. We obtained this information during our audit of the U.S. Consolidated Financial Statements for the fiscal year ending September 30, 2007.<sup>3</sup> We reviewed improper payment information reported in the fiscal year 2007 PARs or annual reports by 30 of the 35 federal agencies, including

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

<sup>2</sup>In their fiscal year 2007 performance and accountability reports or annual reports, certain federal agencies updated their fiscal year 2006 improper payment estimates to reflect changes since issuance of their fiscal year 2006 PARs or annual reports. These updates decreased the governmentwide improper payment estimate for fiscal year 2006 from \$42 billion to \$41 billion.

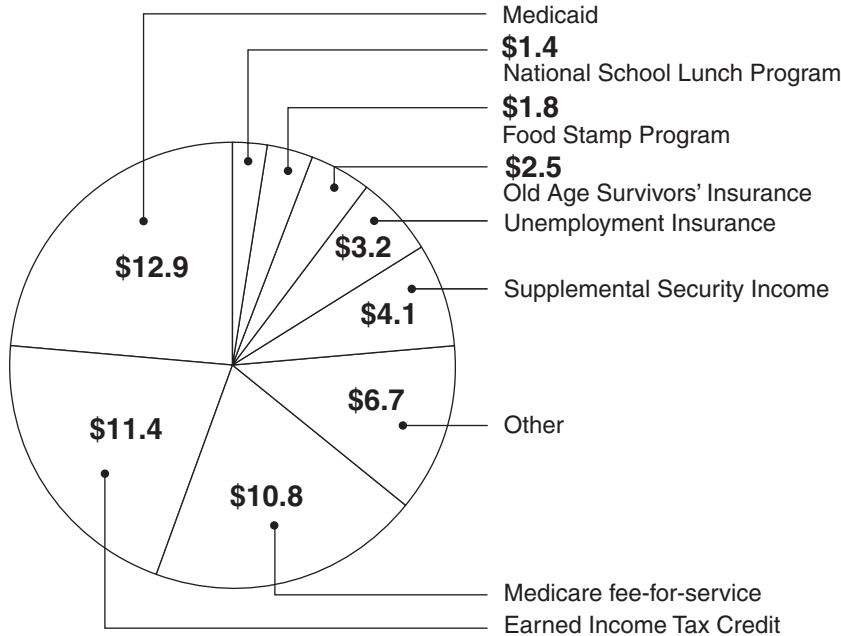
<sup>3</sup>See GAO's report on its audit of the federal government's fiscal year 2007 financial statements that was incorporated in the *2007 Financial Report of the United States Government* published by the Department of the Treasury.

government corporations, that the Department of the Treasury determined to be significant to the U.S. government's consolidated financial statements. The remaining 5 agencies are either federal corporations with a different year-end reporting date or had not issued their PAR or annual reports as of the end of our fieldwork for the consolidated audit.

Of the 30 agencies included in our review, 21 agencies reported improper payment estimates in their PAR. Of the remaining 9 agencies that did not report estimates, 8 reported they did not have any programs or activities susceptible to significant improper payments, and the reporting for another agency did not include any information about whether it had programs susceptible to significant improper payments. We did not independently validate the data reported in these agencies' PARs or annual reports. However, consistent with our reporting objective, we are providing agency-reported data as descriptive information that will inform interested parties about the relative magnitude of governmentwide improper payments and other improper payment-related information. We believe the data to be sufficiently reliable for this purpose. We provided a draft of this report to the Office of Management and Budget (OMB) for its review and comment. OMB provided technical comments that we incorporated as appropriate. We conducted this performance audit from November 2007 to January 2008, in accordance with generally accepted government auditing standards. Those 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.

The fiscal year 2007 estimate of about \$55 billion represents improper payments for 78 programs in 21 agencies, an increase from the 20 agencies and 60 programs that made up the fiscal year 2006 estimate. The \$55 billion estimate also represents about 2 percent of total fiscal year 2007 federal executive branch agencies' government outlays of almost \$2.8 trillion and largely consists of improper payments made in eight programs (as shown in fig. 1). Collectively, the eight programs account for about \$48 billion or approximately 88 percent of the total estimate.

**Figure 1: Fiscal Year 2007 Improper Payment Estimates by Program (dollars in billions)**



Source: GAO analysis of agencies' fiscal year 2007 PARs or annual reports.

The largest estimate was related to the Department of Health and Human Services' (HHS) Medicaid program with estimated improper payments of about \$13 billion. However, the \$13 billion improper payment estimate relates only to the fee-for-service component of the Medicaid program<sup>4</sup> and is based on 6 months of fee-for-service claims<sup>5</sup> processed by the states, rather than a complete fiscal year.<sup>6</sup> HHS reported that in fiscal year 2008, it expects to report a comprehensive national Medicaid error rate that includes not only its fee-for-service, but also its managed care,<sup>7</sup> and eligibility components.

Our review found that some agencies still have not developed improper payment estimates for all of their programs and activities identified as susceptible to significant improper payments. As shown in table 1, the fiscal year 2007 total improper payment estimate did not include any amounts for 14 programs, with fiscal year 2007 outlays totaling about \$170 billion.

<sup>4</sup>Fee-for-service is a traditional method of medical services under which providers are paid for each service rendered.

<sup>5</sup>The fiscal year 2007 Medicaid estimate is based on fiscal year 2006 processed claims.

<sup>6</sup>Generally, OMB requires agencies to use a 12-month reporting period when estimating improper payments.

<sup>7</sup>Managed care is any system of delivering health services through a specified network of doctors and hospitals that agree to comply with the care approaches established by a care-management process.

**Table 1: Risk-Susceptible Programs That Did Not Report Improper Payment Estimates for Fiscal Year 2007**

	Fiscal year 2007 outlays (dollars in billions)	Target date for reporting improper payment estimate
1 Department of Health and Human Services—Child Care and Development Fund <sup>a</sup>	\$ 4.9	2008
2 Department of Health and Human Services—Medicare Advantage	75.1	Did not report target date
3 Department of Health and Human Services—Medicare Prescription Drug Benefit	49.3	Did not report target date
4 Department of Health and Human Services—State Children's Health Insurance Program <sup>a</sup>	6.3	2008
5 Department of Health and Human Services—Temporary Assistance for Needy Families <sup>a</sup>	17.3	2008
6 Department of Homeland Security—Federal Emergency Management Agency—Assistance to Firefighters Grants	0.5	2008
7 Department of Homeland Security—Federal Emergency Management Agency—Homeland Security Grant Program	0.8	2008
8 Department of Homeland Security—Federal Emergency Management Agency—Infrastructure Protection Program	0.12	2008
9 Department of Homeland Security—Federal Emergency Management Agency—National Flood Insurance Program	1.5	2008
10 Department of Homeland Security—Federal Emergency Management Agency—Public Assistance Programs	5.1	2008
11 Department of Homeland Security—Immigration and Customs Enforcement—Detention and Removal Operations	1.2	2008
12 Department of Homeland Security—Immigration and Customs Enforcement—Investigations	1.1	2008
13 Department of Homeland Security—Transportation Security Administration—Aviation Security—Payroll	2.9	2008
14 Department of Homeland Security—United States Coast Guard—Military Payroll	3.5	2008
<b>Total</b>	<b>\$ 169.6</b>	

Source: GAO's analysis of agencies' fiscal year 2007 PARs or annual reports.

<sup>a</sup>OMB required program to submit improper payment information prior to governmentwide IPIA reporting requirements. See footnote 8 of this report for a detailed description.

A majority of these programs represent newly identified risk-susceptible programs reported by the Department of Homeland Security. The completion of risk-susceptibility assessments on programs is a positive step toward addressing IPIA requirements. We also found, however, that three HHS programs had not reported improper payment estimates for fiscal year 2007, although OMB required these and other programs to report selected improper payment information for several years before passage of IPIA.<sup>8</sup> After the enactment of IPIA, OMB's implementing guidance<sup>9</sup> required that these programs continue to report improper payment information under IPIA.

HHS reported in its fiscal year 2007 PAR that pilot reviews were conducted in various states for the Temporary Assistance for Needy Families and Child Care and Development Fund programs and that estimated improper payment rates for these programs would be reported in fiscal year 2008. Further, HHS reported that it also expects to report a comprehensive improper payment estimate rate for the State Children's Health Insurance Program (SCHIP) that will encompass its fee-for-service, managed care, and eligibility components. We recognize that measuring improper payments for these state-administered<sup>10</sup> programs and designing and implementing actions to reduce or eliminate them are not simple tasks, particularly for grant programs that rely on administration efforts at the state level. Consequently, as we previously reported in April 2006,<sup>11</sup> communication, coordination, and cooperation among federal agencies and the states will be critical factors in estimating national improper payment rates and meeting IPIA reporting requirements for state-administered programs.

## Conclusion

While federal executive agencies continued to improve their implementation of IPIA in fiscal year 2007, fulfilling the requirements of IPIA will require sustained attention to implementation and oversight. Preventing, identifying, and recovering improper payments, in that order, are what is needed across the federal government to manage, and ultimately minimize, such payments. As you have requested, we will continue to analyze the fiscal year 2007 results and provide updated and more detailed information of IPIA implementation results.

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<sup>8</sup>Prior to 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 established targets and goals. 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.

<sup>9</sup>OMB, Circular No. A-123, Appendix C, *Requirements for Effective Measurement and Remediation of Improper Payments* (Aug. 10, 2006).

<sup>10</sup>The term "state-administered" refers to federal programs that are managed on a day-to-day basis at the state level to carry out program objectives.

<sup>11</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).

We are sending copies of this report to the Director, Office of Management and Budget; appropriate congressional committees; and other interested parties. We will also make copies available at no charge on GAO's Web site at <http://www.gao.gov>. If you or your staff members have any questions, please contact me at (202) 512-2600 or [williamsm1@gao.gov](mailto:williamsm1@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Major contributors to this report were Carla Lewis, Assistant Director; Donell Ries; and Viny Talwar.

A handwritten signature in black ink that reads "McCoy Williams". The signature is written in a cursive, flowing style.

McCoy Williams  
Managing Director, Financial Management and Assurance

Enclosure

**Improper Payment Estimates Reported in Federal Executive Branch Agencies' Fiscal Year 2007 Performance and Accountability Reports or Annual Reports**

	<b>Department or agency</b>	<b>Program or activity</b>	<b>Fiscal year 2007 Total estimate (dollars in millions)</b>	<b>Fiscal year 2007 Error rate (percent)</b>
1	Agency for International Development	1 Cash Transfers	3.0	0.2
		2 Cooperative Agreements, Grants, and Contracts	96.0	1.2
2	Department of Agriculture	3 Child and Adult Care Food Program	12.0	1.7
		4 Conservation Reserve Program	9.0	0.5
		5 Conservation Security Program (previously Farm Security and Rural Investment)	1.0	0.5
		6 Direct and Counter-Cyclical Payments	37.0	0.4
		7 Federal Crop Insurance Corporation Program Fund	63.0	2.7
		8 Food Stamp Program	1,794.0	6.0
		9 Loan Deficiency Payments	18.0	0.5
		10 Marketing Assistance Loan Program	458.0	7.5
		11 Milk Income Loss Contract Program	8.0	2.2
		12 Miscellaneous Disaster Programs	25.0	6.8
		13 National School Lunch Program	1,402.0	16.3
		14 Noninsured Assistance Program	8.0	13.1
		15 Rental Assistance Program	26.0	3.1
		16 School Breakfast Programs	520.0	24.9
		17 Wildland Fire Suppression Management	13.0	1.0
		18 Special Supplemental Nutrition Program for Women, Infants, and Children	25.0	0.7
3	Department of Commerce	All programs and activities	0.0 <sup>a</sup>	0.0 <sup>a</sup>
4	Department of Defense	19 Civilian Pay	74.6	0.3
		Commercial Pay	0.0 <sup>a</sup>	0.0 <sup>a</sup>
		20 Military Health Benefits	156.0	2.0
		21 Military Pay	370.0	0.5
		22 Military Retirement Fund	48.7	0.1
		23 Travel Pay	43.6	1.0

	<b>Department or agency</b>	<b>Program or activity</b>	<b>Fiscal year 2007 Total estimate (dollars in millions)</b>	<b>Fiscal year 2007 Error rate (percent)</b>
5	Department of Education	24 Federal Student Aid— Federal Family Education Loan	2.0	0.0 <sup>b</sup>
		25 Federal Student Aid—Pell Grants	433.0	3.5
		26 Title I	87.6	0.7
6	Department of Energy	27 Payment programs	19.7	0.1
7	Environmental Protection Agency	28 Clean Water State Revolving Funds	1.6	0.1
		29 Drinking Water State Revolving Funds	0.0 <sup>c</sup>	0.0 <sup>c</sup>
8	Export-Import Bank of the United States	All programs and activities	0.0 <sup>d</sup>	0.0 <sup>d</sup>
9	Federal Communications Commission	30 Universal Service Fund— High Cost Support Program	620.0	16.5
		31 Universal Service Fund— Low Income Program	75.5	9.5
		32 Universal Service Fund— Schools and Libraries	210.0	12.9
10	General Services Administration	All programs and activities	0.0 <sup>a</sup>	0.0 <sup>a</sup>
11	Department of Health and Human Services	Child Care and Development Fund	0.0 <sup>e</sup>	0.0 <sup>e</sup>
		33 Foster Care	51.6	3.3
		34 Head Start	88.0	1.3
		35 Medicaid	12,900.0	18.5
		Medicare Advantage	0.0 <sup>e</sup>	0.0 <sup>e</sup>
		36 Medicare Fee-for-service	10,800.0	3.9
		Medicare Prescription Drug Benefit	0.0 <sup>e</sup>	0.0 <sup>e</sup>
		State Children's Health Insurance Program	0.0 <sup>e</sup>	0.0 <sup>e</sup>
		Temporary Assistance for Needy Families	0.0 <sup>e</sup>	0.0 <sup>e</sup>
12	Department of Homeland Security	37 Customs and Border Protection—Custodial— Refund & Drawback and Continued Dumping & Subsidy Offset Act & Payments to Wool Manufacturers	9.0	0.1
		Federal Emergency Management Agency— Assistance to Firefighters Grants	0.0 <sup>e</sup>	0.0 <sup>e</sup>



Department or agency	Program or activity	Fiscal year 2007 Total estimate (dollars in millions)	Fiscal year 2007 Error rate (percent)
	Federal Emergency Management Agency—Homeland Security Grant Program	0.0 <sup>e</sup>	0.0 <sup>e</sup>
38	Federal Emergency Management Agency—Individuals and Households Program	88.0	9.5
	Federal Emergency Management Agency—Infrastructure Protection Program	0.0 <sup>e</sup>	0.0 <sup>e</sup>
	Federal Emergency Management Agency—National Flood Insurance Program	0.0 <sup>e</sup>	0.0 <sup>e</sup>
	Federal Emergency Management Agency—Public Assistance Programs	0.0 <sup>e</sup>	0.0 <sup>e</sup>
39	Federal Emergency Management Agency—Vendor payments	42.0	2.4
	Immigration and Customs Enforcement—Detention and Removal Operations	0.0 <sup>e</sup>	0.0 <sup>e</sup>
40	Immigration and Customs Enforcement—Federal Protective Service	4.8	0.7
	Immigration and Customs Enforcement—Investigations	0.0 <sup>e</sup>	0.0 <sup>e</sup>
	Transportation Security Administration—Aviation Security—Payroll	0.0 <sup>e</sup>	0.0 <sup>e</sup>
41	United States Coast Guard—Contract Payments	0.0 <sup>b</sup>	0.0 <sup>b</sup>
	United States Coast Guard—Military Payroll	0.0 <sup>e</sup>	0.0 <sup>e</sup>
13	Department of Housing and Urban Development		
	Community Development Block Grant (Entitlement Grants, States/Small Cities)	0.0 <sup>a</sup>	0.0 <sup>a</sup>
	42 Low Income Public Housing	322.9	1.2
	43 Section 8—Project Based	410.8	1.5
	44 Section 8—Tenant Based	785.4	2.9
14	Department of the Interior		
	All programs and activities	0.0 <sup>a</sup>	0.0 <sup>a</sup>

<b>Department or agency</b>		<b>Program or activity</b>		<b>Fiscal year 2007 Total estimate (dollars in millions)</b>	<b>Fiscal year 2007 Error rate (percent)</b>
15	Department of Justice	All programs and activities		0.0 <sup>a</sup>	0.0 <sup>a</sup>
16	Department of Labor	45	Federal Employees' Compensation Act	2.6	0.1
		46	Unemployment Insurance	3,248.0	10.3
		47	Workforce Investment Act	2.9	0.1
17	National Aeronautics and Space Administration	All programs and activities		0.0 <sup>a</sup>	0.0 <sup>a</sup>
18	National Science Foundation	Research and Education Grants and Cooperative Agreements		0.0 <sup>a</sup>	0.0 <sup>a</sup>
19	Nuclear Regulatory Commission	All programs and activities		0.0 <sup>a</sup>	0.0 <sup>a</sup>
20	Office of Personnel Management	48	Federal Employees Group Life Insurance	0.8	0.0 <sup>b</sup>
		49	Federal Employees Health Benefits Program	168.7	0.5
		50	Retirement Program (Civil Service Retirement System and Federal Employees Retirement System)	253.5	0.4
21	Pension Benefit Guaranty Corporation	All programs and activities		0.0 <sup>a</sup>	0.0 <sup>a</sup>
22	Railroad Retirement Board	51	Railroad Unemployment Insurance Benefits	2.9	2.6
		52	Retirement and Survivors Benefits	133.3	1.4
23	Securities and Exchange Commission	53	Disgorgements and Penalties	0.0 <sup>f</sup>	0.0 <sup>f</sup>
		54	Operational Vendor Payments	0.0 <sup>b</sup>	0.0 <sup>b</sup>
24	Small Business Administration	55	504 Certified Development Companies (Debentures)	0.0 <sup>f</sup>	0.0 <sup>f</sup>
		56	504 Certified Development Companies (Guaranties)	0.0 <sup>f</sup>	0.0 <sup>f</sup>
		57	7(a) Business Loan Program (Guaranty Purchases)	2.6	0.4
		58	7(a) Business Loan Program (Guaranty Approvals)	0.0 <sup>f</sup>	0.0 <sup>f</sup>
		59	Disaster Assistance	4.5	0.6
		60	Small Business Investment Companies	4.0	0.2
25	Social Security Administration	61	Old Age and Survivors' Insurance	2,504.0	0.4
		62	Disability Insurance	0.0 <sup>c</sup>	0.0 <sup>c</sup>
		63	Supplemental Security Income Program	4,089.0	10.1

	<b>Department or agency</b>		<b>Program or activity</b>	<b>Fiscal year 2007 Total estimate (dollars in millions)</b>	<b>Fiscal year 2007 Error rate (percent)</b>
26	Department of State	64	Business Class Travel and Sensitive Payments	0.6	4.0
		65	International Information Program—U.S. Speaker and Specialist Program	.9	4.0
			International Narcotic and Law Enforcement Affairs—Narcotics Program	0.0 <sup>a</sup>	0.0 <sup>a</sup>
27	Tennessee Valley Authority	66	Payment programs	6.6	0.1
28	Department of Transportation	67	Airport Improvement Program	0.0 <sup>f</sup>	0.0 <sup>f</sup>
		68	Federal Transit—Capital Investment Grants	0.6	1.1
		69	Federal Transit—Formula Grants	4.3	0.3
		70	Highway Planning and Construction	55.2	0.2
29	Department of the Treasury	71	Earned Income Tax Credit	11,350.0	25.5
30	Department of Veterans Affairs	72	Compensation	240.8	0.8
		73	Dependency and Indemnity Compensation	0.0 <sup>c</sup>	0.0 <sup>c</sup>
		74	Education programs	101.0	3.7
		75	Loan Guaranty	4.7	0.5
		76	Non-VA Care Fee	92.6	5.9
		77	Pensions	303.9	8.6
		78	Vocational Rehabilitation	4.0	0.7
			<b>Total</b>	<b>54,744.8</b>	

Source: GAO analysis of cited agencies' fiscal year 2007 PARs or annual reports.

<sup>a</sup> Agency reported that it had no programs or activities susceptible to significant improper payments or agency did not report estimate for this program.

<sup>b</sup> Agency error rate was less than 1 percent or error rate rounded to zero for purposes of this report.

<sup>c</sup> Agency combined this program with the program listed above.

<sup>d</sup> Agency did not address improper payments or IPIA in its fiscal year 2007 PAR or annual report.

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

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

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