Why GAO Did This Study
Fiscal year 2005 marked the second year that executive agencies were required to report improper payment information under the Improper Payments Information Act of 2002 (IPIA). The ultimate goal is to minimize such payments because, as a practical matter, they cannot be entirely eliminated. GAO’s testimony is primarily based on its recently issued report, GAO-07-92, which included a review of improper payment information reported by 35 agencies in their fiscal year 2005 performance and accountability or annual reports. This statement focuses on the progress agencies have made in their improper payment reporting, the challenges that remain, and the total amount of improper payments recouped through recovery auditing.

What GAO Recommends
In its related report, GAO suggested that the Congress consider amending IPIA to define specific criteria agencies should use to ensure that the full extent of improper payments is captured. GAO also made recommendations to the Office of Management and Budget (OMB) to help ensure accurate and complete improper payment and recovery auditing reporting. OMB generally agreed with GAO’s recommendations and outlined actions planned and under way for continued progress. However, in a subsequent letter to GAO, OMB’s Controller raised concerns about the report, including the timing of issuance.

What GAO Found
While agencies are making progress, their fiscal year 2005 reporting under IPIA does not yet reflect the full scope of improper payments across executive branch agencies. Major challenges remain in meeting the goals of the act and ultimately improving the integrity of payments. GAO found that three challenges in particular continue to hinder full reporting of improper payment information:

- **Existing reporting incomplete.** Although 18 agencies collectively identified and estimated improper payments for 57 programs and activities totaling $38 billion, some agencies still had not instituted systematic methods of reviewing all programs, resulting in their identification of none or only a few programs as susceptible to significant improper payments. In many cases, these same agencies had well-known and well-documented financial management weaknesses as well as fraudulent, improper, and questionable payments. Further, improper payments estimates totaling about $389 million for 9 programs were not based on a valid statistical sampling methodology as required. Materially higher estimates would have been expected had the correct methods been used, given that total outlays for these 9 programs exceeded $58.2 billion.
- **Large programs still not included.** Estimates of improper payments for 10 risk-susceptible programs with outlays totaling over $234 billion still have not been provided. Most of these programs were subject to OMB reporting requirements that preceded IPIA.
- **Threshold criteria limit reporting.** The act includes broad criteria to identify risk-susceptible programs. OMB’s implementing guidance includes more specific criteria that limit the disclosure and transparency of agencies’ improper payments.

GAO’s preliminary review of fiscal year 2006 data indicates that while additional progress is being made, agencies continue to face many of the significant challenges noted in GAO’s report on fiscal year 2005 reporting.

With regard to agencies’ recovery audit efforts, GAO found that the data reported may present an overly optimistic view of these efforts. While 21 agencies were required to report on their recovery audit efforts, GAO identified discrepancies in several agencies’ information and found limited reviews over contract payments. For example, for fiscal year 2005, the National Aeronautics and Space Administration (NASA) reported that it had identified and recovered $617,442 in contract payments, a 100 percent recovery rate. Yet, the NASA Office of Inspector General reported it had identified over $51 million in questioned contract costs during fiscal year 2005, of which NASA management decided to pursue recovery of $51 million. Had this amount been compared to the $617,442 NASA actually recovered, its recovery rate would drop from the reported 100 percent to 1.2 percent.