

Highlights of [GAO-12-405T](#), a testimony before the Subcommittee on Government Organization, Efficiency, and Financial Management, Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

Over the past decade, GAO has issued numerous reports and testimonies highlighting improper payment issues across the federal government as well as at specific agencies. Fiscal year 2011 marked the eighth year of implementation of the Improper Payments Information Act of 2002 (IPIA), as well as the first year of implementation for the Improper Payments Elimination and Recovery Act of 2010 (IPERA). IPIA requires executive branch agencies to annually identify programs and activities susceptible to significant improper payments, estimate the amount of improper payments for such programs and activities, and report these estimates along with actions taken to reduce them. IPERA, enacted July 22, 2010, amended IPIA and expanded requirements for recovering overpayments across a broad range of federal programs.

This testimony addresses (1) federal agencies' reported progress in estimating and reducing improper payments, (2) remaining challenges in meeting current requirements to estimate and report improper payments and (3) actions that can be taken to move forward with improper payment reduction strategies. This testimony is primarily based on prior GAO reports, including GAO's fiscal year 2011 audit of the Financial Report of the United States Government. The testimony also includes improper payment information recently presented in federal entities' fiscal year 2011 financial reports.

View [GAO-12-405T](#). For more information, contact Beryl H. Davis at (202) 512-2623 or [davisbh@gao.gov](mailto:davisbh@gao.gov).

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## IMPROPER PAYMENT

### Moving Forward with Governmentwide Reduction Strategies

## What GAO Found

Federal agencies reported an estimated \$115.3 billion in improper payments in fiscal year 2011, a decrease of \$5.3 billion from the prior year reported estimate of \$120.6 billion. The \$115.3 billion estimate was attributable to 79 programs spread among 17 agencies. Ten programs accounted for about \$107 billion or 93 percent of the total estimated improper payments agencies reported for fiscal year 2011. The reported decrease in fiscal year 2011 was primarily related to three programs—decreases in program outlays for the Department of Labor's Unemployment Insurance program, and decreases in reported error rates for the Earned Income Tax Credit program and the Medicare Advantage program. Further, the Office of Management and Budget reported that agencies recaptured \$1.25 billion in improper payments to contractors, vendors, and healthcare providers in fiscal year 2011. Over half of this amount, \$797 million, can be attributed to the Medicare Recovery Audit Contractor program which identifies Medicare overpayments and underpayments.

The federal government continues to face challenges in determining the full extent of improper payments. Some agencies have not yet reported estimates for all risk-susceptible programs, such as the Department of Health and Human Services' Temporary Assistance for Needy Families program. Internal control weaknesses continue to exist, heightening the risk of improper payments. Some agencies' estimating methodologies need to be refined. For example, two Department of Defense commercial payment programs were not included in the total governmentwide error rate because the estimation methodologies for these programs were still under development.

A number of actions are under way across government to help advance improper payment reduction goals. These actions and future initiatives will be needed to enhance federal government efforts to reduce improper payments. For example,

- Additional information and analysis on the root causes of improper payment estimates would help agencies target effective corrective actions and implement preventive measures. Although agencies were required to report the root causes of improper payments in three categories beginning in fiscal year 2011, of the 79 programs with improper payment estimates for fiscal year 2011, 42 programs reported the root cause information using the required categories. In addition, because the three categories are general, additional analysis is critical to understanding the root causes.
- Implementing strong preventive controls can help defend against improper payments, increasing public confidence and avoiding the difficult "pay and chase" aspects of recovering improper payments. Preventive controls involve activities such as upfront validation of eligibility using electronic data matching, predictive analytic tests, and training programs. Further, addressing program design issues, such as complex eligibility requirements, may also warrant further consideration.
- Effective detection techniques to quickly identify and recover improper payments are also important to a successful reduction strategy. Detection activities include data mining and recovery audits. Another area for further exploration is the broader use of incentives to encourage and support states in efforts to implement effective preventive and detective controls.