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FINANCIAL MANAGEMENT

Coordinated Approach Needed to Address the Government's Improper Payments Problems



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Abbreviations

CCC	Commodity Credit Corporation
CFO	Chief Financial Officer
CFOC	Chief Financial Officers Council
CIO	Chief Information Officer
CIOC	Chief Information Officers Council
CMS	Centers for Medicare and Medicaid Services
COO	Chief Operating Officer
DFAS	Defense Finance and Accounting Service
DI	Disability Insurance
DOD	Department of Defense
EITC	Earned Income Tax Credit
FCIC	Federal Crop Insurance Corporation
FNS	Food and Nutrition Service
FSA	Farm Service Agency
GPRA	Government Performance and Results Act
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
OIG	Office of the Inspector General
IRS	Internal Revenue Service
OASI	Old Age and Survivors Insurance
OMB	Office of Management and Budget
OPM	Office of Personnel Management
PCIE	President's Council on Integrity and Efficiency
PHA	public housing agencies
PMC	President's Management Council
POA	public housing authority, owner, or agent
REAC	Real Estate Assessment Center
RHIIP	Rental Housing Integrity Improvement Project
RMA	Risk Management Agency
SSA	Social Security Administration
SSI	Supplemental Security Income
USDA	Department of Agriculture



United States General Accounting Office
Washington, D.C. 20548

August 9, 2002

The Honorable Fred Thompson
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

Dear Senator Thompson:

The federal government of the United States spends approximately \$1.8 trillion dollars annually for a variety of grants, transfer and other payments, and procurement of goods and services. As the steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees spend those funds and is responsible for safeguarding those funds against improper payments. As noted in the reports we have issued on this matter over the past 3 years, the federal government's record in identifying and reporting the magnitude of program funds associated with improper payments and actions to better manage these payments needs improvement.¹

In our view, improper payments include payments that should not have been made or were made for incorrect amounts. Specifically, they include inadvertent errors, such as duplicate payments and calculation errors; payments for unsupported or inadequately supported claims; payments for services not rendered or rendered to ineligible beneficiaries; and payments resulting from fraud and abuse. They occur in a variety of programs and activities, including those related to contractors and contract management; health care programs, such as Medicare and Medicaid; financial assistance benefits, such as food stamps and housing subsidies; and tax refunds. Improper payments result in spending taxpayer dollars for other than their intended purposes, services to those not entitled to program benefits at the expense of legitimate beneficiaries, or both.

¹ U.S. General Accounting Office, *Financial Management: Improper Payments Reported in Fiscal Year 2000 Financial Statements*, GAO-02-131R (Washington, D.C.: Nov. 2, 2001); U.S. General Accounting Office, *Financial Management: Billions in Improper Payments Continue to Require Attention*, GAO-01-44 (Washington, D.C.: Oct. 27, 2000); and U.S. General Accounting Office, *Financial Management: Increased Attention Needed to Prevent Billions in Improper Payments*, GAO/AIMD-00-10 (Washington, D.C.: Oct. 29, 1999).

As we noted in our report on strategies to manage improper payments,² these payments occur for many reasons including insufficient oversight or monitoring, inadequate eligibility controls, and automated system deficiencies. However, one point is clear—the basic or root cause of improper payments can typically be traced to a lack of or breakdown in internal controls. A lack of internal controls can result from factors beyond an agency's control, such as statutory barriers and program design issues, as well as factors within its control, such as ineffective program procedures. Collectively, internal controls are an integral component of an organization's management that are intended to provide reasonable assurance that the organization achieves its objectives of (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations. Internal controls are not one event, but a series of actions and activities that occur throughout an entity's operations on an ongoing basis.

Because of your continued interest and concerns regarding financial management in the federal government, you asked us to update certain aspects of our 2000 report on improper payments.³ Specifically, you requested that we (1) quantify, where possible, the amount of improper payments reported in agencies' fiscal year 2000 financial statements, (2) assess the extent to which agencies' fiscal year 2002 performance plans address improper payments, (3) determine the extent to which the Office of Management and Budget (OMB) has implemented the recommendations made in our prior reports, and (4) identify other actions that might encourage agencies to better report the extent of their improper payments. On November 2, 2001, we reported that agency fiscal year 2000 financial statements identified about \$19.6 billion in improper payments,⁴ the first item in your request. This report addresses the remaining areas and identifies the amount of improper payments reported in agencies' fiscal year 2001 financial statements.

²U.S. General Accounting Office, *Strategies to Manage Improper Payments: Learning From Public and Private Sector Organizations*, GAO-02-69G (Washington, D.C.: Oct. 2001).

³U.S. General Accounting Office, *Financial Management: Billions in Improper Payments Continue to Require Attention*, GAO-01-44 (Washington, D.C.: Oct. 27, 2000).

⁴U.S. General Accounting Office, *Financial Management: Improper Payments Reported in Fiscal Year 2000 Financial Statements*, GAO-02-131R (Washington, D.C.: Nov. 2, 2001).

Results in Brief

A review of the improper payments reported in agency financial statements over the past 3 years shows some change in the amounts individual agencies reported and the programs with improper payments, but relatively little change in the total amount of improper payments over the period. While the total amount reported in agency financial statements has decreased from about \$20.7 billion for fiscal year 1999 to about \$19.1 billion for fiscal year 2001 and the number of agencies reporting improper payments fell from eight to six over the same period, these figures do not present a true picture of the level of improper payments in federal programs and activities. As significant as the \$19 billion in improper payments is, the actual extent of improper payments governmentwide is unknown, is likely to be billions of dollars more, and will likely grow in the future without concerted and coordinated efforts by agencies, the administration, and the Congress.

The four agencies collectively reporting the majority of reported improper payments—the Departments of Agriculture (USDA), Health and Human Services (HHS), Housing and Urban Development (HUD), and the Social Security Administration (SSA)—have been actively working to address improper payments through their systems of internal control. While they have met with some success in identifying and reducing improper payments, they have also encountered barriers that have restricted their ability to better manage against improper payments. These barriers include legislation-based requirements or prohibitions, program design obstacles, and resource constraints. Since agencies alone cannot address these barriers, a united approach involving federal agencies, the administration, and the Congress is needed. Together these parties can eliminate or otherwise mitigate the barriers, as deemed appropriate.

Agencies' annual performance plan discussions of improper payments do not provide the information needed to adequately assess and evaluate the seriousness of the problem or the effectiveness of actions taken to address it. The Government Performance and Results Act (GPRA) requires agencies to prepare annual performance plans for use by agency officials, the administration, the Congress, and the public as tools for evaluating the effectiveness of federal programs and the resources spent in operating them. Of the 15 agency performance plans we reviewed, only 4 comprehensively addressed any of the GPRA-required report elements of goals, measures, strategies, and procedures to validate performance data for improper payments. Further, agency progress in addressing improper payment problems was difficult to measure because of continual goal

changes that were hard to track or that were made with insufficient explanation.

Transparency in reporting improper payments is crucial at both the federal agency and governmentwide levels. Public reporting helps establish accountability as well as expectations for improvements. Yet requirements for federal agencies to publicly report on the extent of their improper payments and on their actions to address these payments are very limited. The administration has taken steps to strengthen the government's actions to identify and address its improper payments problems; however, the required reporting is limited to the initial budget submissions to OMB for about 50 programs in 16 federal agencies, 15 of which are Chief Financial Officers (CFO) Act agencies. Since the initial budget submissions to OMB are not publicly disclosed, the improper payment information contained in them is not routinely or consistently available for congressional or public review and analysis or for holding federal agencies accountable for improvement.⁵

Current requirements and guidance do not require or offer a comprehensive approach to measuring improper payments, developing and implementing corrective actions, or reporting on the results of the actions taken. We previously recommended that OMB issue guidance to assist federal agencies in developing and implementing a methodology for annually estimating and reporting improper payments for major federal programs. We also recommended that OMB consult with congressional oversight committees regarding their efforts to help agencies reduce improper payments. In commenting on those reports, OMB agreed that its focus on improper payments should be expanded, and it has begun to implement changes. For example, under OMB's guidance, interagency councils have met to address improper payments and have started carrying out specific tasks such as preparing a set of indicators and other agency guidance.

This report contains recommendations for federal executive branch agencies to assign responsibilities for taking actions to minimize improper payments and for OMB to assist agencies in developing methods to identify

⁵In an August 17, 2001, memorandum to Circular A-11, *Preparing and Submitting Budget Estimates*, OMB encourages agencies to report improper payments through other venues such as agency performance reports, annual financial statements, or regularly issued stand-alone program reports.

and implement those actions. We are also presenting matters for congressional consideration to assist agencies with barriers and to help agencies with improvement efforts.

In commenting on this report, HHS, HUD, SSA, and OMB noted that they had actions in progress or that were completed that addressed our recommendations or that agency units supported the essence of the topics covered by the report. Each of these organizations and USDA also provided technical comments and other editorial suggestions for our consideration. We considered all comments and made changes to the report, as appropriate.

Background

As the steward of taxpayer dollars, the federal government is accountable for how its agencies and grantees spend hundreds of billions of dollars and is responsible for safeguarding those funds against improper payments. Our work over the past several years has demonstrated that improper payments are a significant and widespread problem in federal agencies. In addition, reports such as the Senate Committee on Governmental Affairs' *Government at the Brink*⁶ and *The President's Management Agenda, Fiscal Year 2002*,⁷ highlight the impact of improper payments on federal programs and the need for actions to strengthen the system of internal control over areas where improper payments occur.

Our past reports have shown that relatively few agencies report improper payments in their financial statements, even though our audits and those of agency Offices of Inspector General (OIG) continue to identify serious improper payment problems and related internal control issues. Federal agency financial statements for fiscal years 1999 and 2000 show improper payments of about \$20.7 billion and \$19.6 billion, respectively. Along with this decrease in the total amount of improper payments reported, changes have occurred in the agencies reporting improper payments and in the programs identified with improper payments.

⁶Senator Fred Thompson, Committee on Governmental Affairs, United States Senate, *Government at the Brink, Volume I, Urgent Federal Government Management Problems Facing the Bush Administration* (Washington, D.C.: June 2001).

⁷Executive Office of the President, Office of Management and Budget, *The President's Management Agenda, Fiscal Year 2002* (Washington, D.C.: Aug. 2001).

During this same period, agency-specific audits and studies continued to indicate that the extent of the improper payment problem was much more widespread than had been disclosed in agency financial statements. For example, in March 2001 we reported⁸ that, during fiscal year 2000, the Internal Revenue Service (IRS), relying on past experience, screened tax returns claiming Earned Income Tax Credits (EITC) to identify (for detailed examination) those considered most likely to be invalid. IRS examiners performed detailed reviews of about 257,000 tax returns claiming approximately \$587 million in EITC⁹ and found that about 173,000 of those tax returns claiming \$395 million in credits (67 percent) were invalid. At the Department of Defense (DOD) the OIG noted that, during fiscal years 1999 and 2000, the Defense Finance and Accounting Service (DFAS) overpaid contractors about \$183 million and \$148 million, respectively, as a result of inadvertent errors, such as paying the same invoice twice and data input errors. None of these amounts show up in our improper payment totals because neither the IRS nor DOD financial statements reported improper payments for those programs for those years.

The basic or root causes of improper payments can typically be traced to a lack of or breakdown in internal controls. Internal controls are an integral component of an organization's management that are intended to provide reasonable assurance that the organization achieves its objectives of (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations.

⁸U.S. General Accounting Office, *Financial Audit: IRS' Fiscal Year 2000 Financial Statements*, GAO-01-394 (Washington, D.C.: Mar. 1, 2001).

⁹The EITC is a refundable tax credit available to low-income working taxpayers.

The President's Management Agenda, Fiscal Year 2002, includes five governmentwide initiatives—one of which is improved financial management. This initiative calls for the administration to establish a baseline on the extent of erroneous payments.¹⁰ Under it, agencies were to include, in their 2003 budget submissions to OMB, information on improper payment rates, including actual and target rates, where available, for benefit and assistance programs over \$2 billion. The agenda also notes that, using this information, OMB will work with agencies to establish goals to reduce improper payments identified in the programs. In addition, the agenda included specific program initiatives for HUD and the Department of Education that addressed improper payments. In July 2001, OMB issued revisions to OMB Circular A-11, *Preparation and Submission of Budget Estimates*, requiring 16 federal agencies¹¹ to include certain improper payment information for about 50 programs in their initial budget submissions to OMB. (Appendix I lists these programs.)

Objectives, Scope, and Methodology

We reviewed fiscal year 2001 financial statement reports prepared under the CFO Act, as expanded by the Government Management Reform Act, and OMB guidance to identify improper payments reported. (Appendix II lists the agencies covered by the CFO Act and the OMB guidance.) We also identified and reviewed recent reports by us and by agency OIGs to identify additional agencies and/or programs that experienced improper payments.

We reviewed the performance plans of the 15 CFO Act agencies required by OMB Circular A-11 to submit improper payment data, assessments, and action plans with their initial budget submissions to OMB. We reviewed these plans to identify improper payment information addressing the four reporting content elements required by GPRA (goals, measures, strategies, and procedures to validate performance data). Further, we reviewed GAO reports that focused on the status of federal agency actions in achieving key outcomes and addressing major management challenges at each of the 15 CFO Act agencies covered by OMB Circular A-11. (See app. III for a list of these reports.) Among other things, some of these reports often

¹⁰Because of the similarity of OMB's definition of erroneous payments with our definition of improper payments, we consider erroneous payments and improper payments as synonymous terms.

¹¹One of these agencies, the Railroad Retirement Board, is not a CFO Act agency and is consequently outside the scope of our work.

included sections on agency efforts to reduce fraud, waste, and errors in programs that reported improper payments. They also compared fiscal years 2001 and 2002 performance plans for consistency and assessed the progress reported in achieving these outcomes as well as the strategies agencies have in place to achieve them.

Recent revisions to OMB Circular A-11 require selected agencies to report improper payment information in their initial budget submissions to OMB. In addition, one of the initiatives in the *President's Management Agenda, Fiscal Year 2002*, called for agencies to establish a baseline on the extent of erroneous payments. We reviewed the *Budget of the United States Government, Fiscal Year 2003*, to assess the extent to which it contained the improper payment information agencies were to submit with their initial budget submissions to OMB and/or the baseline information requested in the agenda.

Since little information was publicly available on agency actions to reduce improper payments, we reviewed agency responses you provided us to the June 2001 letters that you and the Chairman of the Senate Committee on Governmental Affairs sent to the heads and OIGs of the 24 CFO Act agencies. These letters asked the agency heads and OIGs to assess their improper payment efforts in the five areas outlined in our October 2001 report, *Strategies to Manage Improper Payments: Learning From Public and Private Sector Organizations*. These areas are (1) the control environment, (2) risk assessments, (3) control activities, (4) information and communications, and (5) monitoring.

We also selected four CFO Act agencies (USDA, HHS, HUD, and SSA) for more detailed review of their efforts to reduce improper payments. These agencies accounted for over 97 percent of the improper payments reported in fiscal years 1999 and 2000 financial statements. At these agencies, we spoke to officials in the inspector general, chief financial officer, and program offices and obtained reports and other documentation evidencing actions that they have taken or are planning to take to reduce improper payments. We focused on obtaining information on the agency actions to reduce the improper payments reported in their financial statements and/or performance plans. We also obtained information on barriers that they encountered when attempting to develop and/or implement methodologies to reduce improper payments.

Finally, we met with OMB officials and reviewed documents regarding OMB's progress in implementing recommendations made in our prior

report. This included a review of revisions to OMB Circular A-11 and correspondence and other guidance to agencies on improper payment-related issues.

We performed our work from May 2001 through April 2002. Our work was conducted in accordance with generally accepted government auditing standards. We provided a draft of this report for comment to the Secretaries of HHS, HUD, and USDA, the Commissioner of SSA, and the Director of OMB. We received written comments from HHS, HUD, and SSA and have reprinted those comments in appendixes IV, V, and VI, respectively. USDA responded by e-mail and OMB provided oral comments.

Agency Financial Statements Provide Limited Information on Federal Improper Payments

Improper payments are acknowledged to be a widespread and significant problem in the federal government with billions of dollars in such payments reported annually in agency financial statements and billions more identified in audit and other reports. For example, federal agency financial statements for fiscal years 1999 through 2001 show improper payments of about \$20.7 billion, \$19.6 billion, and \$19.1 billion, respectively. Although significant, these amounts are not indicative of the magnitude of improper payments governmentwide. Currently, relatively few agencies report improper payments in their financial statements, even though our audits and those of agency OIGs continue to identify serious improper payment problems and related internal control issues. The following table summarizes improper payments reported in agencies' fiscal years 1999, 2000, and 2001 financial statements.

Table 1: Improper Payments Reported by Federal Agencies and Components in Their Fiscal Years 1999, 2000, and 2001 Financial Statements

Department or agency	Dollars in millions		
	1999	2000	2001
Department of Agriculture Food Stamp Program	\$1,290.0	\$1,100.0	b
Department of Defense Military Retirement Trust Fund	25.3	21.6	\$19.6
Department of Education Education Assistance programs	a	154.0	1.5
Department of Energy No specific program identified	b	a	a
Department of Health and Human Services Medicare Fee-for-Service Claim Payments	13,500.0	11,900.0	12,100.0
Cost Reports	600.0	570.0	493.0
Medicaid	b	b	b
Department of Housing and Urban Development Housing Subsidy programs	935.0	1,254.0	2,013.0
Department of Justice Federal Bureau of Investigation	b	a	a
Department of Labor Black Lung Disability	a	10.4	186.7
Federal Employees Compensation Act	19.2	14.8	
Unemployment Insurance	142.3	136.0	
Department of State Foreign Service Retirement and Disability	b	a	a
Department of the Treasury Internal Revenue Service	a	b	b
United States Customs Service	0.4	b	b
Department of Veterans Affairs Veterans Benefits	b	b	b
Office of Personnel Management Retirement	84.0	102.0	b
Federal Employees' Health Benefits	93.0	71.0	b
Federal Employees' Group Life Insurance	0.2	0.0	a
Social Security Administration Disability Insurance	1,118.0	1,284.0	1,313.0
Old Age and Survivors Insurance	1,325.0	1,334.0	1,339.0
Supplemental Security Income	1,578.0	1,644.0	1,590.0
Total	\$20,710.4	\$19,595.8	\$19,055.8

^aThe financial statements did not identify improper payments in these programs.

^bThe agencies administering these programs acknowledged making improper payments in their financial statements but did not disclose a dollar amount.

Source: GAO developed based on a review of agency fiscal years 1999, 2000, and 2001 financial statements.

The dollar amount of improper payments reported annually for fiscal years 1999 through 2001 decreased by about \$1.7 billion and the number of agencies reporting a specific amount of improper payments in their financial statements declined from 8 to 6. A review of the table above shows that, for fiscal years 1999 and 2000, 8 agencies collectively reported \$20.7 billion and \$19.6 billion, respectively, whereas for fiscal year 2001, 6 agencies collectively reported improper payments of about \$19.1 billion. About \$18.8 billion (99 percent) of the improper payments reported in the fiscal year 2001 financial statements occurred in the programs administered by HHS, HUD, and SSA. In total, 13 agencies acknowledged making improper payments or reported a specific amount in their financial statements within the 3-year time frame. Ten of the 13 agencies reported or acknowledged making improper payments for fiscal year 2001.

A comparison of the fiscal years 2001 and 2000 improper payment information reported in agency financial statements revealed several significant differences in the programs reporting improper payments and the amounts reported.

- In fiscal year 2000, USDA's Food and Nutrition Service's (FNS) financial statements identified improper food stamp payments of \$1.1 billion. For fiscal year 2001, FNS did not publicly issue separate financial statements. While USDA's financial statements contained FNS's financial information and recognized that improper payments occurred in the food stamp program, the statements did not identify a specific improper payment amount.
- HUD reported improper payments of \$1.25 billion in fiscal year 2000 and \$2 billion in fiscal year 2001. Specifically, in fiscal year 2000 it estimated \$1.94 billion in annual housing subsidy overpayments and \$.69 billion in underpayments. In fiscal year 2001, it reported overpayments of \$2.65 billion and underpayments of about \$.65 billion. In commenting on this report, HUD noted that, in fiscal year 2000, it also identified \$617 million in improper payments due to underreporting of tenant income. We do not include this amount in the HUD total in table 1 because HUD's fiscal year 2000 financial statement notes that the \$1.25 billion and \$617 million "should not be considered totally additive." An unknown amount of overlap exists in these amounts. Regarding the increase in

improper payments reported since fiscal year 1999, HUD revised its methodology for measuring the types of errors that make up its improper payments estimate. In fiscal year 2000, it expanded the scope of its error estimation to include subsidy determination errors by its administrative intermediaries in addition to the impacts of tenant underreporting of income. In fiscal year 2001, it refined its methodology to obtain a combined estimate of both types of errors. More specifically, HUD's error measurement methodology covers errors made by public housing authorities, owners, and agents (POAs) in determining tenant income and rent as well as errors made by the tenants in reporting their income. Past estimates only considered the impact of tenants underreporting income for amounts over \$3,000 and used a sample of tenants from HUD's data systems. However, the fiscal year 2001 estimate was based on more stringent criteria. It considered tenant underreported income for amounts over \$1,000 and was based on a random selection of all tenants, including those who were not covered in the past.

- At the Office of Personnel Management (OPM), the fiscal years 1999 and 2000 financial statements identified improper payment amounts for the retirement, federal employees' health benefits, and federal employees' group life programs. The fiscal year 2001 statements did not identify improper payment amounts, but recognized that an unidentified amount of improper payments occurred in the retirement program and federal employees' health benefits.
- At the Department of Labor, the fiscal year 2001 financial statements identified the total amount of improper payments for three of its programs but did not separately identify the improper payments relating to each program—as it had done in the past.

Recent audits as well as information provided by agency OIGs continue to demonstrate that improper payments are much greater than has been disclosed thus far in financial statements. For example, historically, the IRS's EITC program has been vulnerable to high rates of invalid claims.¹² IRS follows up on only a portion of the suspicious EITC claims it identifies. The amount of improper payments included in the almost \$26 billion IRS disbursed for EITC in fiscal year 2001 is unknown.¹³ However, based on an IRS report of the estimated \$31.3 billion in EITC claims made by taxpayers for tax year 1999, an estimated \$8.5 billion to \$9.9 billion (27 percent to about 32 percent) should not have been paid.¹⁴ Weaknesses in IRS's controls over refund disbursements, particularly those related to EITC, continue to expose the federal government to material losses due to disbursing improper refunds.

Similarly, while DOD reported improper payments related to the Military Retirement Fund for fiscal years 1999, 2000, and 2001, departmentwide estimates of improper payments remain unreported in the financial statements. For example, over the last several years DOD has overpaid its contractors by hundreds of millions of dollars. Specifically, according to DFAS Columbus (the largest centralized DFAS disbursing activity) records, in fiscal year 2001 DOD contractors refunded about \$128 million primarily attributed to DFAS payment errors and duplicate invoices. This amount might not reflect total improper payments DOD made to contractors because contract reconciliation is likely to identify additional overpayments. Further, although small in relation to the approximately \$78 billion that DFAS Columbus disbursed in fiscal year 2001 to DOD contractors, this amount represents a sizable amount of cash in the hands of contractors beyond what is intended to finance and pay for the goods and services DOD purchases, and is indicative of the need for stronger internal controls within the payment system.

¹²U.S. General Accounting Office, *High-Risk Series: An Update*, GAO-01-263 (Washington, D.C.: Jan. 2001); U.S. General Accounting Office, *Major Management Challenges and Program Risks: Department of the Treasury*, GAO-01-254 (Washington, D.C.: Jan. 2001); and U.S. General Accounting Office, *Financial Audit: IRS' Fiscal Year 2000 Financial Statements*, GAO-01-394 (Washington, D.C.: Mar. 1, 2001).

¹³U.S. General Accounting Office, *Financial Audit: IRS's Fiscal Years 2001 and 2000 Financial Statements*, GAO-02-414 (Washington, D.C.: Feb. 27, 2002).

¹⁴Department of the Treasury, Internal Revenue Service, *Compliance Estimates for Earned Income Tax Credit Claimed on 1999 Returns*, Feb. 28, 2002.

Limited Information on Improper Payments or on Progress in Reducing Them Is Publicly Available

Periodically and consistently estimating the rate and/or amount of improper payments and publicly reporting progress enables agencies and others with oversight and monitoring responsibilities to measure progress over time and determine whether further action is needed to minimize future improper payments. It enhances accountability by identifying performance measures and progress against those measures and by helping to establish performance and results expectations. Improper payment information is currently reported in a variety of places, including annual financial statements, performance plans, and the budget. However, neither the financial statements, as previously discussed; the performance plans; nor the budget provide a comprehensive view of either the scope of the improper payment problem or of individual agency or governmentwide efforts to reduce it. As such, they provide limited information for use in establishing (1) appropriate response levels to correct the problems or (2) responsibility—holding organizations and/or individuals accountable for performance and results.

GPRA requires agencies to prepare annual performance plans that inform the Congress and the public of (1) the annual performance goals for agencies' major programs and activities, (2) the measures that will be used to gauge performance against these goals, (3) the strategies and resources required to achieve the performance goals, and (4) the procedures that will be used to verify and validate performance information. Agencies develop plans for use by agency officials, the administration, the Congress, and the public. They provide information on the purpose and effectiveness of federal programs and on the resources spent in conducting them. On February 14, 2001, the Director of OMB issued a memorandum to agency heads requiring agencies to update their fiscal year 2002 performance plans to include performance goals for the President's governmentwide reforms for every reform that would significantly enhance the administration and operation of the agency. One of these reforms is reducing improper payments to beneficiaries and other recipients of government funds. We did not determine the level of significance of improper payments at any agency. However, as a result of the memorandum, we expected improper payment-related actions to have been discussed in agencies' fiscal year 2002 performance plans, at least for those agencies required to report improper payment information in their initial budget submissions to OMB. We reviewed the plans for improper payment-related issues. In general, our review revealed that none of the 15 performance plans examined contained detailed information for all of the areas that GPRA requires agencies to address—goals, measures, strategies, or procedures to validate

performance data—for each reform discussed in the performance plan. Only 4 of the plans comprehensively addressed any of the four areas in their improper payments discussion.

Table 2 summarizes our evaluation of the extent to which the annual performance plans contained improper payment-related discussions for the four areas GPRA requires to be addressed—goals, measures, strategies, and procedures to validate performance data—for the 15 CFO Act agencies required by OMB Circular A-11 to report improper payment information in their initial budget submissions. This evaluation was based on the performance plan assessments contained in the separate agency reports that we issued last year. (Appendix III lists these reports.) We considered an agency to have comprehensively addressed goals, measures, strategies, and procedures to validate performance data if our report did not reveal any weaknesses for how the performance plan addressed each of those elements for improper payment-related issues.

Table 2: Evaluation of How Agencies Addressed Improper Payments in Their Fiscal Year 2002 Annual Performance Plans

Agency	GPRA required elements			Procedures to validate performance data
	Goals	Measures	Strategies	
Agriculture	Some	Some	Some	Some
Defense	a	a	a	a
Education	Some	Some	Some	Some
Health and Human Services	Some	Some	Some	Yes
Housing and Urban Development	No	Some	Some	Some
Labor	Some	Some	Yes	Some
Transportation	b	b	b	b
Treasury	Some	No	Some	No
Veterans Affairs	No	No	Yes	No
Agency for International Development	b	b	b	b
Environmental Protection Agency	b	b	b	b
National Science Foundation	b	b	b	b
Office of Personnel Management	Some	Some	Some	Some
Small Business Administration	Yes	No	Yes	No
Social Security Administration	Some	Some	Some	Some

^aAs of May 21, 2002, DOD had not issued a fiscal year 2002 performance plan.

^bThese agencies made no reference to improper payments in their fiscal year 2002 annual performance plans. Therefore, we were unable to evaluate their plans or actions to address improper payments, if these types of payments existed at these agencies.

Legend

- Yes** The performance plan comprehensively addressed improper payments.
- Some** The performance plan did not comprehensively address improper payments.
- No** The performance plan did not address this element for improper payments.

We found that, although 10 of the 15 agencies discussed improper payments in their fiscal year 2002 performance plans, none comprehensively addressed improper payments for all four of the plan elements required by GPRA. Furthermore, only 4 of the 15 agencies comprehensively addressed improper payments for any of the GPRA-required elements. In addition, six performance plans discussed at least one of the elements but not comprehensively. That is, the reports acknowledged improper payments and cited some information regarding

one or more of the elements, but that information was not adequate to use as a basis for evaluating agency actions or progress in addressing improper payment problems. Further, four plans made no reference to improper payments.

Our key outcomes reports noted the following examples of weaknesses in agency performance plans.

- Within HHS, the Centers for Medicare and Medicaid Services (CMS)¹⁵ had adequate procedures to validate performance data, but the strategies needed to achieve its improper payment goals were not adequately addressed and these goals were not consistently measurable. In some instances, the plan stated generally that the accomplishment of a goal was the target and did not explain, in sufficient detail, CMS's strategies to ensure that the goal is accomplished. In others, progress was difficult to measure because of continual goal changes that were sometimes hard to track or that were made without sufficient explanation. Specifically, in both the fiscal years 2001 and 2002 performance plans, goals were dropped, revised or subsumed into other goals, or goals were added for the Medicare program integrity outcome. While refinements may be desirable as efforts become more mature, the inability to track individual initiatives makes it difficult to measure progress in achieving outcomes. Furthermore, because many of the baselines and measures for the new and revised goals were under development, CMS's intended performance regarding them was unclear.
- IRS's EITC program under Treasury has historically been vulnerable to high rates of improper refunds—paying billions of dollars for improper EITC claims. Treasury's performance plan did not report on performance measures for any aspect of IRS's administration of the EITC, and IRS lacked performance measures for the program. Therefore, we are unable to assess progress toward achieving less waste, fraud, and error in the program. The performance plan noted that, in 1998, IRS began implementing a 5-year EITC compliance initiative that involved several components directed at the major sources of EITC noncompliance. While IRS is collecting data on the

¹⁵Effective July 1, 2001, the Health Care Financing Administration became CMS. CMS is responsible for managing and operating the Medicare and Medicaid programs and, consequently, for safeguarding the programs' financial resources against improper payments.

initiative's results, the data are not yet sufficient to determine whether the initiative has reduced the overall noncompliance rate.

- SSA's annual performance plan includes several goals and performance measures targeted specifically at increasing program integrity and reducing fraud and abuse. Yet the performance plan was not clear about SSA's progress in meeting these goals because of continued revisions to prior indicators and goals as well as SSA's inability to provide timely performance data.

Since the conclusion of our fieldwork, some agencies have issued their annual performance plans for fiscal year 2003. Some of those plans may have addressed improper payments more thoroughly. In future work, we plan to review these plans for information on improper payments and compare fiscal years 2002 and 2003 performance plans for consistency and to assess the progress reported in achieving improper payment-related outcomes and strategies.

Although no specific requirement exists for public reporting on improper payment-related activities at the agency level, the administration has recognized the importance of reducing governmentwide improper payments. The *President's Management Agenda, Fiscal Year 2002*, discusses the reduction of improper payments as a key element under its initiative to improve financial performance within the government. As a result of this initiative, OMB revised its Circular A-11 to incorporate needed efforts to address improper payments within 16 selected federal agencies and about 50 programs within those agencies. Section 57.3 requires the selected agencies to include specific improper payment-related information in their fiscal year 2003 initial budget submissions to OMB. More specifically, the circular states that agencies that currently estimate improper payment rates for the programs identified are required to submit the following data:

- estimated improper payment rates projected for fiscal year 2001;
- actual improper payment rates for fiscal years 1999 and 2000, if available;
- target rates (goals) for improper payments for fiscal years 2002 and 2003;
- causes of improper payments;

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- variances from targets or goals that were established; and
 - descriptions and assessments of the current methods for measuring the rate of improper payments, and of the quality of data resulting from these methods.

The circular also requires each of these agencies to submit an assessment of the effectiveness of current agency efforts to minimize improper payments as well as an action plan that includes

- additional actions the agency could take to prevent and correct improper payments,
- an evaluation of the costs and benefits of implementing these corrective actions,
- a description of programmatic and legal considerations, and
- an assessment of the extent to which undertaking these actions would hinder the achievement of major program objectives.

For programs administered by states or other organizations for which agencies are not currently estimating improper payment rates, the circular requires each agency to submit an analysis of whether and how improper payments could be estimated and of the costs and benefits of collecting new or additional data. In preparing their responses, agencies were told to consider programmatic and legal obstacles to collecting additional data or establishing estimation procedures. Both the circular and the *President's Management Agenda, Fiscal Year 2002*, note that OMB plans to review the information provided and coordinate with each agency to develop detailed action plans on a program-by-program basis.

Furthermore, in August 2001, OMB distributed a memorandum to agency CFOs and budget officers containing supplemental guidance on submitting the improper payment information required by OMB Circular A-11. Among other things, it identified eight basic principles all federal agencies should recognize to minimize improper payments. The principles are

- prevention is more effective than after-the-fact efforts,
- program payment integrity is a joint management responsibility,

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- improper payments should be kept to the lowest practical level,
 - payments should be balanced with program goals and other competing priorities,
 - controls should take into account both the benefits and costs,
 - performance measurement and reporting provide better accountability,
 - data verification strengthens program payment integrity, and
 - impediments to effective controls may exist and should be considered.

The discussion of one of these principles—performance measurement and reporting provides better accountability—further notes that “Public reporting of progress enhances accountability. Agency performance can be reported in a variety of places, including reporting under the Government Performance and Results Act, annual financial reports, or regularly-issued stand-alone program reports.” The memorandum also requires documentation to support any conclusion that estimating improper payments is unnecessary or would not be cost-beneficial because the program is not susceptible to significant improper payments, has strong internal controls to prevent improper payments, or has not experienced an improper payment problem, or that the burden outweighs the benefit to be gained by developing estimates. OMB is currently analyzing the submissions and revising the requirements based on feedback from agencies.

In addition, other OMB initiatives include (1) working with the Congress on legislation to improve agency access to data for data sharing and drafting related agency guidance, (2) refining the OMB Circular A-11 guidance on reporting improper payment activity, (3) funding improper payment activities in the budget, (4) establishing electronic government Web sites including GovBenefits—which should improve the up-front accuracy of benefit determinations, and (5) assessing quarterly executive branch management scorecards to track how well agencies are executing the President’s management initiatives.

These actions are appropriate for tracking and managing progress in this area. Unfortunately, the vehicle being used to assemble these data inhibits public disclosure of the information. OMB Circular A-11 requires selected programs and agencies to submit improper payment data with their initial

fiscal year 2003 budget submissions but Section 36 of the circular prohibits the submissions from being publicly disclosed. Therefore, we reviewed the *Budget of the United States Government, Fiscal Year 2003*, to determine the improper payment information it contained. Since OMB incorporates the individual agencies' budget requests into the budget and since the administration has made the reduction of improper payments a priority, we expected to find some improper payment information in the budget. Our review showed minimal discussion of improper payments as compared to the detailed information OMB Circular A-11 requires agencies to provide in their initial budget submissions. For example, even though OMB Circular A-11 requires 15 CFO Act agencies to provide improper payment information on about 50 programs, the budget shows

- actual improper payment rates for fiscal year 2000 for 2 programs—food stamps and Medicare,
- target error rates for food stamps and Supplemental Security Income,
- types and causes of improper payments for the Department of Education's Student Financial Aid Program and HHS's Medicare and Medicaid programs, and
- a description of additional actions 6 agencies could take to prevent or correct improper payments for 8 programs.

Furthermore, the Budget did not contain information for any agency for several areas cited in OMB Circular A-11, including an analysis and description of whether and how improper payments could be estimated, an analysis of the costs and benefits of collecting new or additional data, and obstacles to collecting additional data or establishing estimation procedures.

Given the fact that the agency financial statements, fiscal year 2002 performance plans, and the budget contained little substantive information on improper payments, we attempted to locate other data that might offer added insights into agency efforts. One source was agency responses to June 2001 congressional requests to agency heads and OIGs for information on agency efforts to control improper payments. The requests, from the Chairman and Ranking Minority Member of the Senate Committee on Governmental Affairs, asked for specific information about the five components of internal control—control environment, risk assessment, control activities, information and communication, and monitoring—

outlined in our report that addressed strategies to manage improper payments.

The congressional requesters received responses from either the agency head, the IG, or both for 9 agencies. Specifically, we found that, for the 15 CFO Act agencies required to report improper payment information under OMB Circular A-11, 9 agency heads and 8 OIGs responded to the congressional request. For 6 of the agencies, neither the agency head nor the OIG responded. Of those that did respond, 5 agency heads and 2 OIGs addressed all of the internal control components, as requested, as demonstrated in the following examples.

- The responses of the Secretary and OIG of HUD show, among other things, how HUD (1) promoted an environment of accountability to reduce improper payments by establishing the Rental Housing Integrity Improvement Project (RHIIP) to help ensure that the “right benefits go to the right person,” (2) estimated its improper payments in the past and is now implementing plans for a more comprehensive error measurement process, and (3) reduced the risk of improper payments by implementing new rent calculation systems and performing data matches with IRS and SSA data.
- The Secretary of HHS’s response showed how the agency (1) addressed the control environment through numerous oversight and program integrity activities, (2) computed an error rate for Medicare fee-for-service claims and determined the cause of these improper payments, (3) established a GPRA goal to reduce the percentage of improper payments made under the Medicare fee-for-service program, (4) worked on a methodology to measure improper payments for the Medicare Managed Care and Medicaid programs, (5) assisted medical providers in submitting claims correctly, and (6) developed statistical analyses to stem fraud, waste, and abuse.
- The Acting Commissioner of SSA explained how SSA (1) created a culture of accountability through the day-to-day operation of its compliance program, (2) estimated payment errors through stewardship reviews, (3) detected and deterred improper payments through a series of system enhancements, (4) collected improper payments by using various methods such as credit bureaus and the Treasury offset program, and (5) established payment accuracy goals and methods to track progress as part of its annual performance plan.

We expected agencies to have accurate and timely information available to respond to the congressional request since, in February 2001, OMB had asked these agencies to address their improper payment issues in their fiscal year 2002 performance plans. However, for the most part, the responses provide only partial answers showing that, while the agencies agreed that managing improper payments is important, they lacked comprehensive strategies to do so. For example, one agency answered all of the questions, yet indicated that it did not know the aggregate amount of improper payments made on a departmentwide level and that the most recent estimate of improper payments for one of its high-risk programs was from 1997. Another agency stated that it has not performed a risk assessment and has no formal process to estimate or track improper payments because it has an inherent culture of high standards, operating efficiency, sophisticated systems, and personal attention to detail, which results in few improper payments. A third agency could not provide substantive answers to the request. Rather, it stated that while audits have recommended improving internal controls, it does not believe they disclosed an unacceptable level of risk. This agency did not estimate the amount of its improper payments or provide details of any related risk assessments.

The Congress and the administration have clearly indicated that agencies should consider the reduction of improper payments a top priority. Despite this focus, little improper payment information is publicly available. Public disclosure provides information against which agency efforts to reduce improper payments can be measured and evaluated. It can also help form a basis for holding agency officials, the administration, and the Congress accountable for actions that reduce improper payments and improve program performance.

Efforts by Four Agencies to Address Improper Payments Have Met with Some Success

The USDA, HHS, HUD, and SSA collectively reported about \$19.1 billion of improper payments in their fiscal year 2000 financial statements. Individual amounts of improper payments reported ranged from \$1.1 billion for the food stamp program at USDA to \$12.5 billion for Medicare-related payments at HHS. Because of the magnitude of the amounts reported, we contacted representatives at each agency to determine their efforts to reduce and manage improper payments. Each agency has been actively working to address its improper payment problems. These efforts typically involved activities related to the five components of internal control—control environment, risk assessments, control activities, information and communications, and monitoring. The

following sections highlight some of the efforts undertaken by these agencies.

Control Environment

The control environment is perhaps the most critical element in reducing improper payments because it establishes a culture of accountability and assigns responsibility for actions. A sound control environment stresses the importance of prevention of improper payments and efficient and effective program operations while maintaining a balance with privacy and information security in a world where most payments are made electronically. In establishing a sound control environment, agency management recognizes that personnel throughout the organization make internal controls work and, therefore, human capital issues must be seriously considered in all changes to the system of internal control.

As noted in our report on strategies to manage improper payments, changes in the control environment may require actions by both the Congress and agency officials. These actions can include enacting legislation, setting and maintaining the ethical tone, delegating roles and responsibilities, and implementing human capital initiatives.

Legislative and management actions that affected the control environment over improper payments occurred at each of the agencies. Legislative actions involved passing laws that revised program operations and called for various prevention and detection methodologies and periodic reporting on the status of agency improvement efforts.

For example, the Agriculture Risk Protection Act of 2000

- authorizes additional resources to assist the Risk Management Agency's (RMA) Federal Crop Insurance Corporation (FCIC)¹⁶ in identifying fraud, waste, abuse, and mismanagement in its programs;

¹⁶The FCIC is a government-owned corporation within USDA.

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- helps FCIC collect bad debts by imposing severe penalties and interest and offsetting future benefit payments for those who willfully and intentionally provide false or inaccurate information with respect to a policy or plan of insurance;¹⁷ and
 - requires RMA's Office of Risk Compliance to use data mining, data warehousing, and data reconciliation to identify potential improper payments and provides up to \$23 million in funding for these efforts through fiscal year 2005.¹⁸

Two legislative reforms have helped the HHS's CMS enhance Medicare's anti-fraud and abuse activities. First, the Health Insurance Portability and Accountability Act of 1996 established the Medicare Integrity Program, which provides CMS with levels of funding for Medicare program safeguard activities such as audits of cost reports and medical prepayment claim reviews. In the cost report area alone, CMS reported \$570 million and \$493 million in improper payments for fiscal years 2000 and 2001, respectively. In addition, the Balanced Budget Act of 1997 provided CMS with increased authority to keep health care providers who have been convicted of health care related crimes out of the Medicare program, exclude providers who abuse the program, and impose monetary penalties on such providers.

At SSA, the Foster Care Independence Act of 1999 helped strengthen program integrity by

- authorizing SSA to conduct matches with Medicare data and simplify procedures to gain access to recipient records from financial institutions to help verify Supplemental Security Income (SSI) recipients' financial eligibility;

¹⁷Authorized sanctions include civil fines of up to \$10,000 and disqualification of future benefits for a period of up to 5 years.

¹⁸Data mining involves specialized software programs that analyze large volumes of claims data to identify potential overpayments. These programs typically contain algorithms to identify billing errors and abusive practices. Data warehouses store historical and current data and consist of tables of information that are logically grouped together. They allow program and financial data from different nonintegrated systems throughout an organization to be captured and placed in a single database where users can query the system for information.

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- authorizing SSA to prohibit individuals who provide false or misleading eligibility information from collecting Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) and SSI cash benefits;
 - making a representative payee—a person authorized to receive benefit payments for a qualified individual—liable for OASI and DI or SSI overpayments caused by payments made to deceased beneficiaries; and
 - authorizing SSA to use all available debt collection authorities to recover SSI debt.

Equally, if not more important, an effective control environment requires management's commitment to reduce improper payments. Agency management can affect the control environment by, among other things, setting expectations and goals for reducing improper payments, implementing program-specific measures to reduce fraud and errors, calling for periodic performance reporting, and requiring follow-up actions based on performance results.

For example, USDA's FNS administers the food stamp program under which state welfare agencies certify eligibility and provide benefits to households. Although not reported in USDA's financial statements, FNS identified about \$976 million in food stamp program overpayments for fiscal year 2001. FNS strives to increase the accuracy of eligibility determinations and benefit computations and also oversees the level of benefits issued. Its food stamp Quality Control System (QC) measures the accuracy of eligibility determinations and benefit computations and then publicly reports each state's overissuance rate. FNS reviews these data to identify areas needing corrective action and practices that are effective in improving payment accuracy.

USDA management also encourages state agencies to minimize improper payments by offering financial incentives for those with high payment accuracy and imposing sanctions on those with payment overissuance rates above the national average. In fiscal year 2000, FNS imposed \$46 million in financial sanctions on 18 states with overissuance rates above the national average. At the same time, it provided \$55 million in supplementary funding to 11 states with payment overissuance rates equal to or below 5.9 percent—a rate well below the national average of about 8.9 percent.¹⁹ These actions have resulted in a decline in state payment error rates from 10.7 percent in fiscal year 1998 to 9.9 percent in fiscal year 1999, to 8.9 percent for fiscal year 2000. However, FNS and OMB officials believe that the Farm Security and Rural Investment Act of 2002²⁰ will likely reduce the number of states sanctioned in future years, as only those with persistently high rates of improper benefit and eligibility determinations (those exceeding 105 percent of the national performance measure for 2 or more consecutive fiscal years) would be penalized.

SSA management demonstrated its commitment to reduce improper payments in its 1997 strategic plan, *Keeping the Promise*. One of the strategic goals cited in the plan is to make SSA program management the best in business with zero tolerance for fraud and abuse. To achieve this goal, SSA initiated a program of anti-fraud efforts to

- eliminate wasteful practices that erode public confidence in the Social Security system;
- vigorously prosecute individuals or groups who damage the integrity of the programs; and
- change programs, systems, and operations to reduce instances of fraud.

Senior SSA management oversees the implementation and coordination of these fraud elimination strategies. At the local level, each SSA region has a Regional Anti-Fraud Committee that acts as the focal point for the agency's effort to combat fraud.

¹⁹U.S. General Accounting Office, *Food Stamp Program: Program Integrity and Participation Challenges*, GAO-01-881T (Washington, D.C.: June 27, 2001).

²⁰P.L. 107-171; Section 4118. Reform of the Quality Control (QC) system provision that made substantial changes to the QC system that measures states' payment accuracy in issuing food stamp benefits.

At HUD, management took steps to reduce errors in the rental housing assistance programs by establishing the Rental Housing Integrity Improvement Project. A RHIIP advisory group develops and implements plans to reduce program errors and correct related material management control deficiencies in HUD's high-risk subsidized rental housing programs. According to a HUD official, the advisory group has taken steps to increase HUD's income data matching authority and utilization to enable upfront income data sharing to avoid subsidy errors attributed to unreported and underreported income sources. In addition, a RHIIP subgroup develops rent calculation software and proposals for program simplification.

Risk Assessment

Risk assessment is a key step in gaining assurance that programs are operating as intended and that they are achieving their expected outcomes. It entails a comprehensive review and analysis of program operations to determine where risks exist, what those risks are, and the potential or actual impact of those risks on program operations. The information developed during a risk assessment forms the foundation or basis upon which management can determine the nature and type of corrective actions needed. It also gives management baseline information for measuring progress in reducing improper payments. In performing a risk assessment, management should consider all significant interactions between the entity and other parties as well as internal factors at both the entitywide and activity levels.

The specific risk assessment methodology used can vary by organization because of differences in missions and the methods used in assigning risk levels. As we noted in the improper payment strategies report cited earlier, risk identification methods often include qualitative and quantitative ranking activities, management conferences, forecasting and strategic planning, and consideration of findings from audits and other assessments. The information obtained from the four agencies we visited revealed frequent use of similar risk assessment activities.

USDA's FNS conducts annual quality control reviews to identify the extent and causes of improper payments in several of its programs, including the food stamp program. The two most recent reviews estimated overpayments of \$1.1 billion and \$976 million in fiscal years 2000 and 2001, respectively. These reviews provided more detailed information about the causes of the improper payments. For example, the report of fiscal year 2000 payments found that about 56 percent of the overpayments and underpayments in the food stamp program occurred when state food stamp

workers made mistakes such as misapplying complex food stamp rules in calculating benefits. The remaining 44 percent of the errors occurred because participants, either inadvertently or deliberately, did not provide accurate information to state food stamp offices.

HHS measures improper payments within the Medicare fee-for-service program and estimated improper payments in this program of \$11.9 billion and \$12.1 billion for fiscal years 2000 and 2001, respectively. Further, the agency reports that the Medicare fee-for-service claims error rate was reduced to 6.3 percent in fiscal year 2001 from 6.8 percent in fiscal year 2000 and 7.97 percent in fiscal year 1999. However, we cannot conclude that these error rate differences are statistically significant. As reported in the OIG fiscal year 2001 Medicare fee-for-service payments review, "The decrease this year may be due to sampling variability; that is, selecting different claims with different dollar values and errors will inevitably produce a different estimate of improper payments."²¹

CMS has initiated projects to improve the precision of Medicare fee-for-service improper payment estimates and aid in the development of corrective actions to reduce improper payment losses. In fiscal year 2001, CMS implemented a provider compliance rate to measure the appropriateness of claims submitted prior to payments. In addition, CMS developed a comprehensive error testing program that will produce contractor-, provider-, and benefit-specific error rates. These error rates can be aggregated to add greater precision to the national level estimates similar to the Medicare fee-for-service error rate.

GAO has designated HUD's rental housing assistance programs as high risk since 1994. HUD has taken several actions to identify the risks associated with these programs and is working to further refine the procedures currently used to obtain more useful assessment information. In one example, HUD analyzed risk designed to measure postpayment accuracy. An annual study of rent calculation errors estimated the extent, severity, costs, and sources of rent errors for the Public Housing and Section 8 programs. The study, which relied on the integrity of the data supplied by the tenants and third-party income verification sources, matched independent determinations of tenants' incomes, rents, and subsidies to

²¹Department of Health and Human Services, Office of Inspector General, *Improper Fiscal Year 2001 Medicare Fee-for-Service Payments*, A-17-01-02002 (Washington, D.C.; Feb. 15, 2002).

those made by local public housing agencies (PHAs) and Section 8 staff to identify incorrect rental calculations due to administrative and mathematical errors. The study results, issued in June 2001, reported tenant rental underpayments of approximately \$1.7 billion annually (an average of \$95 per household) in 34 percent of households and tenant rental overpayments of over \$600 million annually (an average of \$56 per household) in 22 percent of households. HUD used the study results to strengthen its procedures for ensuring administrative compliance with regulations.

In another study, HUD developed an approach to identify differences between tenant federal income tax data and the income tenants reported to HUD by using a large-scale computer matching income verification process. While initial results were effective in identifying certain errors in tenant reporting, HUD is currently developing different methodologies to improve the accuracy of this type of risk assessment.

HUD recently began to expand the scope of its error measurement methodology to cover the three primary types of rental assistance program errors—public housing authorities, owners and agents income and rent determinations; tenant reporting of income; and POA billings to HUD for subsidy payments. The current error measurement methodology addresses the first two of these three components and, starting in 2003, HUD intends to annually measure and report on all three error components. HUD's goal is to reduce processing errors and resulting improper payments by 50 percent by 2005.

Control Activities

Once an organization has committed to reducing the risk of improper payments, identified program areas that are at risk, quantified the possible extent of the risk, and has set a goal for reducing the risk, it must act to achieve that goal. Control activities are the policies, procedures, techniques, and other mechanisms designed to help ensure that management's decisions and plans are carried out. Control activities used by organizations to address improper payments vary according to the specific threats faced and risks incurred. The types of payment activities identified as presenting the most significant risk of improper payments and the kinds of data and other resources available dictate the specific actions pursued by individual entities. Additionally, the actions must comply with all relevant laws and strike a balance between the sometimes competing goals of privacy and program integrity.

Given the large volume and complexity of federal payments and historically low recovery rates for certain programs, it is generally most efficient to pay bills and provide benefits properly in the first place. Aside from minimizing overpayments, preventing improper payments increases public confidence in the administration of benefit programs and avoids the difficulties associated with the “pay and chase” aspects of recovering improper payments. However, since some overpayments are inevitable, agencies also need to adopt effective detection techniques to quickly identify and recover them. Detection activities play a significant role not only in identifying improper payments, but also in providing data on why these payments were made and, in turn, highlighting areas that need strengthened prevention controls. The agencies in our study used many different prevention and detection control activities to manage improper payments. The nature of these activities ranged from sophisticated computer analyses of beneficiary and program participant data using data sharing and computer-editing techniques to on-site verification of claim information.

Data sharing allows entities to compare information from different sources to identify inconsistencies and thus help ensure that payments are appropriate. For example, data matches of social security numbers and other data can help determine whether beneficiaries are inappropriately receiving payments at more than one address. For government agencies, data sharing can be particularly useful in confirming initial or continuing eligibility of participants in benefit programs and in identifying improper payments that have already been made.

Of the four agencies included in our review, SSA is the most active in the data sharing arena. It performs over 20 data matches with over 10 federal agencies and more than 3,500 state and local entities. For instance, SSA shares data with HUD so that HUD can perform a match to verify the identity of recipients of housing benefits and identify potentially fraudulent claims.

In addition to sharing data with other entities, SSA also uses data from other sources to perform matches to help prevent and detect improper payments in its programs. For example, it obtains death records from states to determine if deceased individuals are still receiving benefit checks. SSA estimates that it saves \$350 million annually for OASI and DI, and \$325 million annually for SSI through its use of data matching. Further, the savings are not limited to those realized by SSA. According to SSA, its matches save other agencies approximately \$1.5 billion each year.

According to SSA's *Performance and Accountability Report, Fiscal Year 2001*, it uses computer matching and other payment-safeguard activities to assist it in finding and correcting improper payments and in identifying and deterring fraud in its entitlement programs. In commenting on our report, SSA noted that the OASI accuracy rate for fiscal year 2000 was 99.9 percent and the SSI accuracy rate was 94.7 percent. It did not provide a fiscal year 2000 DI accuracy rate. In continuing efforts to improve payment accuracy, SSA invested more than \$1 billion in processing over 9 million alerts in fiscal year 2001. Current estimates indicate that these payment-safeguard activities detected or prevented about \$7 billion in overpayments.

Data mining is a computer-based control activity that analyzes diverse data for relationships that have not previously been discovered. The central repository of data commonly used to perform data mining is called a data warehouse. Data warehouses store tables of historical and current information that are logically grouped. Applying data mining to a data warehouse allows an organization to efficiently query the system to identify potential improper payments, such as multiple payments for an individual invoice to an individual recipient on a certain date, or to the same address.

The large number of Medicare transactions precludes a manual examination of each transaction to identify associations and patterns of unusual activities, making data mining an effective and efficient alternative. CMS is currently involved in two data mining efforts. Its claims administration contractors currently use data mining and statistical analysis as part of their postpayment review activities. At the request of the states, CMS has also undertaken a Medicare/Medicaid data exchange project. This project's goal is to use data mining to query data from both programs in an effort to find fraudulent or abusive patterns that may not be evident when billings for either program are viewed in isolation, but would become evident when they are compared.

Computerized edit checks are used to ensure that valid and authorized transactions are recorded and executed according to management and program requirements. USDA's RMA provides the regulations, crop policies, underwriting standards, and loss-adjustment standards for crop insurance policies, although private insurance companies deliver the actual crop insurance program. RMA's crop insurance program uses a variety of computer-generated edit checks to ensure valid program requirements are met. These edit checks include ensuring that the liability was not increased at the time of loss, the cause of loss was insurable according to policy language, and the insurance company applied appropriate calculations to

determine the loss payment. In addition, RMA matches each producer's social security and employer identification numbers with the agent and loss adjuster to ensure that the producers have not been debarred from participating in the crop insurance program. Once information is accepted through the above edit processes, RMA loads it into databases where it is subject to further audit and review.

The computerized data sharing and data mining efforts discussed in this report help identify improper payments by providing more useful and timely access to information. These techniques can result in significant savings by identifying client reporting errors and misinformation during the eligibility determination process—before payments are made—or by detecting improper payments that have been made. However, the extensive use of personal information in an evolving technological environment raises new questions about how individual privacy should be protected. In the federal arena, such activities must be implemented consistent with all protections of the Privacy Act of 1974, as amended by the Computer Matching and Privacy Protection Act of 1988, and other privacy statutes.

Not every control activity identified involved computer applications. The agencies that participated in this review also used on-site visits and manual claims reviews to help reduce improper payments. For example, USDA's Farm Service Agency (FSA) administers programs for the Commodity Credit Corporation (CCC). Among other income and commodity support programs, CCC indemnifies food producers for the extraordinary losses of crops or livestock resulting from weather-related disasters and pest infestations. Over 2,200 FSA local county offices are responsible for ensuring that producers provide reliable claim information. FSA performs random reviews of about 5 to 20 percent of producer-provided information to verify that, among other things, acreage has not been overstated. (These spot checks search for anomalies such as numbers outside of reasonable ranges.) Similarly, at HHS, CMS manually reviews Medicare claims to determine whether benefits are provided to eligible beneficiaries, charges are covered, and services are medically necessary and reasonable.

Information, Communications, and Monitoring

Once an organization has identified its improper payment-related risks and undertaken activities to reduce them, federal officials with program management, oversight, and monitoring roles need relevant, reliable, and timely information to help them make operating decisions and monitor performance on a day-to-day basis and over time. For example, a major

objective of the Federal Financial Management Improvement Act is to have systems that provide good cost accounting information that program managers can use in managing day-to-day operations. Managerial cost accounting is aimed at providing reliable and timely information on the full cost of federal programs, their activities, and outputs. This cost information can be used by the Congress and federal executives in making decisions about allocating federal resources, authorizing and modifying programs, evaluating program performance, and developing the information to support GPRA requirements.

The need for information and communication extends beyond organizational boundaries. Educational activities for both beneficiaries and other program participants help reduce improper payments and strengthen program operations. Complex program regulations can be confusing to both agency personnel and beneficiaries and thus can potentially contribute to improper payments. The better educated agency employees, contractors, and beneficiaries are about what is expected of them and the consequences of not meeting those expectations, the greater the chances for reducing fraud and errors in the payment process. All four agencies visited educated recipients and service providers on complex program regulations using various mechanisms, including the Internet and printed materials.

For example, at USDA, FSA maintains a Web site with program descriptions and information for producers. This site has hyperlinks to additional information, guidance, and contacts for FSA and CCC. It includes links to farm loan information, youth loans, disaster assistance, price supports, and conservation programs. Furthermore, CCC regularly sends out news releases explaining policies and procedures.

Agencies also use printed materials to educate recipients and service providers. HUD publishes reference guides, handbooks, forms, and other tools for homeowners and lenders. Its OIG has also published fraud prevention guidance, *Guidelines for Public Housing Authorities to Prevent, Detect and Report Fraud*. At USDA, FNS publishes guidance that focuses on improving both access to the food stamp program and the accuracy of eligibility requirements for benefit determinations. For example, in September 2001, FNS updated its food stamp program fact sheet, which is distributed to applicants in state food stamp agencies and is available on its Web site. The fact sheet describes the rules and types of documentation that applicants will need to provide at the interviews to verify eligibility. SSA has also developed brochures and printed materials

as part of its campaign to keep the public informed about Social Security programs.

Barriers to More Effectively Managing Improper Payments

When discussing actions to reduce improper payments, officials at all four agencies cited barriers that restricted their ability to better manage their programs against improper payments. Generally, agency officials noted that they encounter barriers due to legislative provisions, program design factors, and resource limitations. It should be recognized that many of these barriers exist as a result of decisions to ensure beneficiary privacy and other data safeguards, the inherent nature of some federal programs, and budgetary realities. As a result, it may be difficult to eliminate or mitigate these barriers to the point where they no longer restrict agency actions in certain areas to better manage their improper payment problems. However, to the extent that that is the situation, federal agencies, the administration, the Congress, and the public must recognize that some level of improper payments will occur because of these decisions. This section of the report discusses these types of barriers.

Legislation-Based Barriers

Legislative actions can give agencies the authority to implement activities to identify improper payments and, subsequently, to hold the responsible parties accountable. They can compel agencies to work together using common data to detect and prevent improper payments, and can authorize agencies to develop incentive programs to increase accuracy in program administration. Yet they can also limit an agency's ability to take actions to reduce improper payments. Agencies trying to identify ineligible individuals receiving government benefits and hold them accountable have met with legislation-based barriers that limit their efforts to minimize improper payments.

HUD officials told us that, to reduce improper payments in subsidized housing programs, they could benefit by having access, even if it is only limited access, to data from other federal agencies and by sharing relevant information with entities implementing HUD's programs. However, they stated that the Internal Revenue Code and the Privacy Act of 1974 have prevented or made it difficult for HUD to obtain this information and have limited how HUD can use it. Specifically, HUD officials noted that the agency can only disclose federal tax data to the tenants and not to the POAs—the entities that determine monthly housing benefits based, in part, on income information. When HUD identifies discrepancies, it sends

letters to the tenants notifying them of the discrepancies and directing them to submit revised income information to their respective POAs. At the same time, HUD notifies the POAs that discrepancies exist between the income in HUD's tenant databases and federal tax data for specific tenants, but it is prohibited from identifying the specific amounts in question. HUD then requests that the POAs resolve the unspecified discrepancies and report the resolution to HUD.

Data currency is also a factor. HUD receives taxpayer income data in September for the previous year and, by then, many of the beneficiaries were either no longer working, had changed jobs, or had moved. While more timely data are available, legislation prevents HUD from using it. For example, the HHS Office of Child Support Enforcement maintains the National Directory of New Hires containing employee wage data that is updated quarterly, versus the IRS data that is updated annually. However, Section 453 of the Social Security Act limits use of the data to those entities listed in the act, and HUD is not one of those entities.²²

Some improper payments are inevitable because agencies are not permitted to stop or adjust payments until the due process hearing or appeals processes are completed. For example, SSA disburses SSI payments to recipients at the beginning of the month based on the income and asset levels recipients expect to maintain during the month. Some government programs pay benefits in advance under the assumption that the beneficiary's circumstances, such as income and asset levels, will remain the same during the period for which payment was rendered. If SSA initially determines that an overpayment occurred, court decisions²³ and language in the Social Security Act allow individuals to continue receiving the same amount of SSI and DI benefits pending the results of a hearing to determine eligibility. If the initial determination is affirmed, the payments made during the hearing and appeals processes are considered overpayments, which SSA may recover using a variety of means.²⁴

²²Pursuant to Section 453(i)(3), (42 U.S. Code, Section 553(i)(3)) the Treasury Department has routing access to this data for limited purposes, including administration of the EITC and employment verification.

²³*Cardinale v. Mathews*, 399 F. Supp. 1163 (D.D.C. 1975), and *Goldberg v. Kelly*, 397 U.S. 254 (1970).

²⁴Social Security Act, 42 USC §§ 423(g) (2) and 404 (2002).

USDA's FNS faces a similar situation. FNS officials stated that the Privacy Act of 1974 has several disclosure prohibitions, access and amendment provisions, and record-keeping requirements that hinder its efforts to share information with other federal agencies and with state agencies. The Computer Matching and Privacy Protection Act of 1988 amended the Privacy Act of 1974 to add procedural requirements for agencies to follow when conducting computer matching. For example, agencies must provide matching subjects with opportunities to receive notice and to refute adverse information before having a benefit denied or terminated. Agencies must establish data protection boards to oversee the data matching activities. Exceptions to the disclosure requirements are possible but require a series of due process steps designed to validate the debt and offer the individual an opportunity to repay it. In commenting on this report, OMB officials told us that it prefers removing statutory barriers only when appropriate privacy safeguards are in place.

Program Design Barriers

Benefit or entitlement programs operated by the federal government in partnership with state or local governments or private intermediary organizations are particularly vulnerable to improper payments. Generally, the federal government provides broad statutory and regulatory guidelines as well as all or a part of the program funding, while the other entities manage the day-to-day program operations. As such, federal agencies must depend on state, county, and local officials and other entities to ensure that eligibility requirements are met and that benefit amounts are determined correctly. Further, these third-party organizations that manage federal programs often have little incentive to ensure that the right amounts go to the right individuals.

Medicaid is the primary source of health care for 34 million enrollees, or about 12 percent of the U.S. population. In fiscal year 2000, federal and state Medicaid outlays totaled \$207 billion—of which \$119 billion represented federal expenses. Medicaid legislation provides states with a variety of options for program administration. They can elect to administer the program at the state or county level, and they can operate fee-for-service programs, managed care programs, or some combination of the two. States may also elect to operate their claims-processing systems directly or contract with private vendors. The variety and complexity of the state Medicaid programs provide challenges for federal oversight. CMS assists interested states in developing methodologies and conducting pilot studies to measure and ultimately reduce improper payments. However, according to CMS officials, only a limited number of states are

interested in participating in these studies since they believe that measuring improper payments could lead to penalties against states based on their error rates. There are, however, some promising activities. Some states are devoting more resources to program integrity activities than they had previously and are obtaining more sophisticated computer analytic capacity to review payment trends and spot improper billing. Still others are implementing stricter health care fraud and abuse control laws and policies.

HUD officials also face the problem of third-party management of a federal program and the lack of a financial benefit or other incentive to encourage the POAs to minimize improper payments. For example, HUD's public housing programs are operated by over 3,000 PHAs, which operate under state and local laws but are funded by HUD. Initial rent determination is based on reported income levels. HUD officials stated that PHAs have little incentive to protect the interests of the government when determining the tenant benefit amount since it is easier to collect payments from HUD than from tenants. Thus, PHA's have the incentive to keep the HUD payment portion as high as possible.

Resource Barriers

Each of the agencies visited processes a large number of payments and claims and emphasizes providing benefits to needy individuals and families as fast as possible. At these agencies, officials noted that speed of service issues coupled with resource constraints can result in improper payments. For example, CMS contracts with health insurance companies to process 890 million Medicare fee-for-service claims each year and SSA processes monthly payments to approximately 51 million individuals. Officials at these agencies stated that resource limitations hinder their ability to perform oversight and monitoring functions, such as site visits and documentation reviews, to ensure that payments are valid.

USDA's RMA expressed similar concerns. Private insurance companies administer the crop insurance for RMA. These companies are responsible for educating the agents who sell crop insurance policies and the parties that purchase the policies. Improper payments can result when crop producers misunderstand the policies or when they detect program vulnerabilities and intentionally misuse the system. RMA has less than two investigators per state and over 1 million policies nationwide, making compliance with laws, policies, and procedures difficult to monitor. Also at USDA, CCC officials stated that there is no time for second-party review of the over 2,300 county offices administering the programs because staff size

has decreased while the number of programs has increased over recent years.

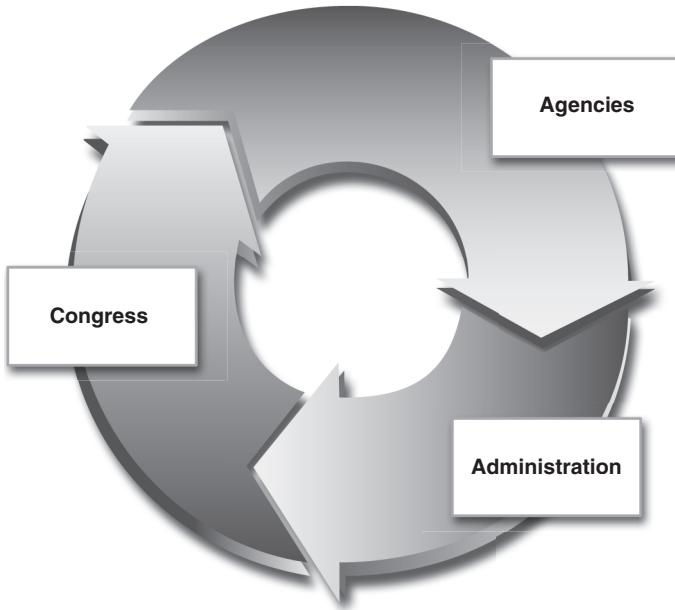
Legislative, program design, and resource barriers represent serious obstacles to an organization's ability to effectively manage improper payments and affect the amounts of improper payments occurring in federal programs. They can be significant inhibitors that departments must face, but which they often do not have the ability to eliminate through independent actions. Addressing these barriers will require coordination and cooperation between federal agencies, state and local organizations, the administration, and the Congress.

A Collaborative Effort Is Needed for Managing Improper Payments

The magnitude of improper payments reported in agency financial statements, GAO and OIG audit reports, and other documents over the past 3 years clearly demonstrates the need for a governmentwide effort to remedy this situation. Many individual agencies have taken measures to address their improper payments during this period, yet the total amount reported has remained fairly constant at around \$19 billion to \$20 billion.

As we noted in our report on strategies to manage improper payments, high levels of improper payments need not and should not be an accepted cost of running federal programs. Identifying and implementing steps to reduce improper payments will likely be difficult, time consuming, and costly. While individual agencies must be responsible for their own programs and related improper payments, the collective efforts of agency management, the administration, and the Congress are necessary to attack improper payments on an agency and governmentwide basis to achieve greater results.

Figure 1: Key Governmentwide Components in the Coordination Effort

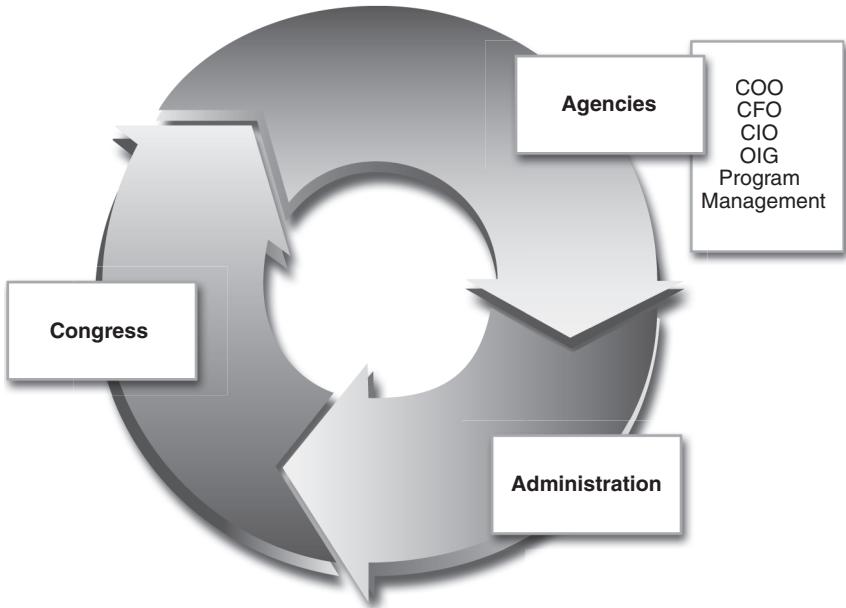


Each of these organizational bodies brings different perspectives and expertise to the solutions process, which, when consolidated, can help reduce the governmentwide improper payment problem. Further, once committed to a plan of action, all parties must remain steadfast supporters of the end goals and their support must be transparent to all.

Federal Agencies

Within federal agencies, program, Chief Operating Officer (COO), CFO, Chief Information Officer (CIO), and IG offices have different missions and areas of responsibility. They also have the common goal of ensuring that federal programs and activities operate as effectively and efficiently as possible. Therefore, agencies would benefit by consolidating the program knowledge, expertise, and experience found in these various offices when developing and implementing controls to minimize improper payments.

Figure 2: Key Agency Components in the Coordination Effort



COOs are appointed by agency heads. They are responsible for providing overall organization management to improve agency performance. The COO has agencywide authority and reports directly to the agency head. COOs provide leadership such as overseeing efforts to improve financial management, which includes reducing improper payments.

The agency CFO oversees the financial management activities relating to agency programs and operations. CFOs are responsible for providing complete, reliable, and timely financial information and for developing and maintaining integrated financial management and accounting systems related to financial reporting and internal controls. The information prepared by the CFO includes internal management reports and agency financial reports. Agency officials responsible for managing and controlling program operations need reliable and timely financial information, including improper payment data, to make operating decisions, monitor performance, and allocate resources. CFOs may identify and incorporate estimated improper payment disclosures into their agencies' annual financial reports, which could promote transparency and help establish accountability. In addition, CFOs may be required to provide

significant input for agency efforts in developing the improper payment information required by the recent revisions to OMB Circular A-11.

CIOs are responsible for managing agency information technology resources of their agencies. In addition to developing new systems, CIOs evaluate and monitor existing systems to determine if they meet agency needs. Many of the techniques for detecting improper payments, such as data sharing and data mining, rely on computerized information systems. Agencies' computer-related activities must also be consistent with all protections of the Privacy Act of 1974, as amended by the Computer Matching and Privacy Protection Act of 1988, and other privacy statutes. Furthermore, inadequate computer systems can have a serious impact on agency efforts to minimize improper payments since agencies use a wide range of computer-assisted activities to address improper payments. These activities range from simple comparative analysis (e.g., comparing beneficiaries with mortality rolls) to sophisticated computer models for interactive analysis of large amounts of information. Furthermore, organizations use computer-generated information to obtain, summarize, and communicate information needed to evaluate program performance.

When performing audits and investigations, OIGs develop information on and an understanding of agency internal control systems and detect fraud and errors involving agency programs and activities. OIG audits have historically identified instances of improper payments within agency programs. For example, the HHS OIG identified \$11.9 billion in overpayments for services in the Medicare fee-for-service program in fiscal year 2000 by selecting a sample of payments to providers and then reviewing the medical records that supported these payments. In addition, at the Department of Labor, an OIG investigation found that a claimant created 13 fictitious companies and submitted Unemployment Insurance claims for 36 fictitious claimants.

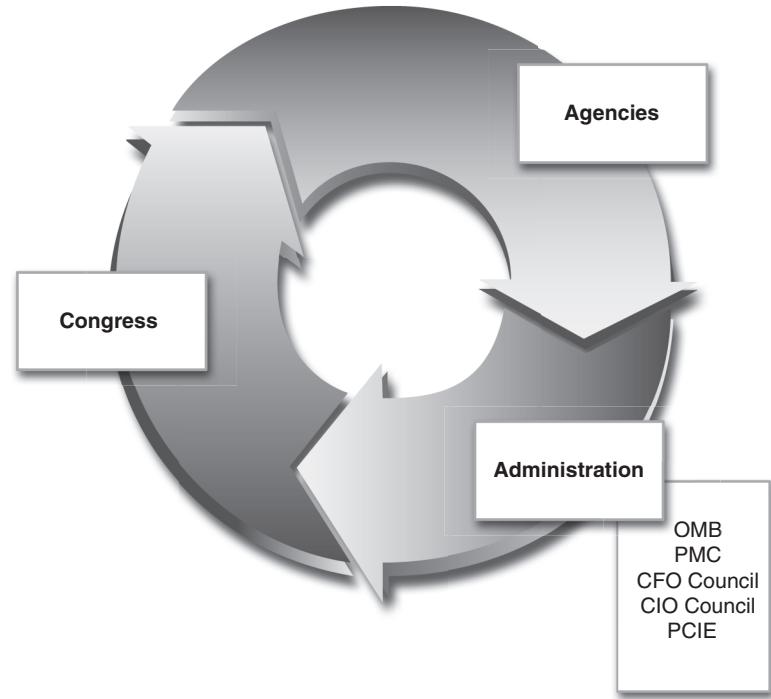
Program managers are the agency's first line of defense against improper payments. They manage their respective programs on a day-to-day basis and are the principal federal points of contact for program participants, such as state and local governments, that administer billions of dollars in federal program and grant funds annually. In performing their responsibilities to ensure that their respective programs operate as intended, they should become aware of the extent and causes of improper payments in their programs.

Although the various offices cited above have different missions and areas of responsibility, they must work together and contribute to the successful management of improper payments. Central leadership within the agency is necessary to coordinate and consolidate the knowledge, skills, and abilities of these diverse entities. The COOs appear to be the logical choice to lead this effort due to the central management role played by this position within each federal agency.

The Administration

Identifying, measuring, preventing, and collecting improper payments are continuing processes for which interagency cooperation can identify practices and procedures that may prove effective governmentwide.

Figure 3: Key Administration Components in the Coordination Effort



As the President's agent for managing and implementing policy, OMB issues guidance and oversees the administrative organization and operations of federal agencies. OMB's staff draws on experience in many areas of government to challenge the thinking of other agencies, which often cannot see beyond their own programs. To promote information sharing across agencies, OMB leads and participates in interagency groups, such as the President's Management Council (PMC), the Chief Financial Officers Council (CFOC), the Chief Information Officers Council (CIOC), and the President's Council on Integrity and Efficiency (PCIE). These councils, which are further described below, are good sources of best practice information for both agencies and OMB to draw on when developing guidance on improper payment issues. OMB's role in managing, implementing, and overseeing governmentwide administrative policy, its interagency perspective, and its leadership role on the various interagency councils make it a key player in the government's effort to reduce improper payments. The following table summarizes the agencies that are members of each council.²⁵

²⁵All councils can select additional members, as designated.

Table 3: Agency Participation in Councils

Agency	President's Management Council	Chief Financial Officers Council	Chief Information Officers Council	President's Council on Integrity and Efficiency
Agency for International Development	✓		✓	
Agriculture	✓	✓	✓	✓
Air Force			✓	
Army			✓	
Central Intelligence Agency			✓	
Commerce	✓	✓	✓	✓
Corporation for National and Community Service				✓
Defense	✓	✓	✓	✓
Education	✓	✓	✓	✓
Energy	✓	✓	✓	✓
Environmental Protection Agency	✓	✓	✓	✓
Federal Emergency Management Agency	✓	✓	✓	✓
General Services Administration		✓	✓	✓
HHS	✓	✓	✓	✓
HUD	✓	✓	✓	✓
Interior	✓	✓	✓	✓
Justice	✓	✓	✓	✓
Labor	✓	✓	✓	✓
National Aeronautics and Space Administration	✓	✓	✓	✓
National Science Foundation	✓	✓	✓	
Navy			✓	
Nuclear Regulatory Commission		✓	✓	✓
OMB	✓	✓	✓	✓
OPM	✓	✓	✓	✓
Railroad Retirement Board				✓
SBA		✓	✓	✓
SSA	✓	✓	✓	✓
State	✓	✓	✓	
Transportation	✓	✓	✓	✓
Treasury	✓	✓	✓	✓
Veterans Affairs	✓	✓	✓	✓

✓ Indicates member of the Council.

Based on its charter, the PMC's membership consists of the Deputy Director of OMB, the Director of OPM, the COOs from the agencies listed in table 3, and other officials. Some of PMC's responsibilities include implementing the *President's Management Agenda, Fiscal Year 2002*, coordinating management-related efforts to improve government throughout the executive branch, resolving interagency management issues, ensuring the adoption of new management practices in agencies, and identifying and sharing examples of best management practices. PMC also seeks advice and information, as appropriate, from federal agencies and considers the management reform experiences of corporations, nonprofit organizations, state and local governments, government employees, public sector unions, and customers of government services.

The CFOC was established under the provisions of the CFO Act of 1990 to improve financial management in the federal government. Its membership consists of the CFOs and deputy CFOs of the largest agencies along with the senior officials of OMB and Treasury, and it is chaired by the Deputy Director for Management, OMB.²⁶ The CFOC recently established an Erroneous Payments Committee. The committee convenes to discuss and develop methods to address improper payments made by federal agencies.

The CIOC was established in July 1996 by Executive Order 13011 as a governmentwide body to address crosscutting information technology issues. CIOs and deputy CIOs of the 28 largest federal agencies, two CIOs representing the smaller federal agencies, and other OMB and advisory members, make up the council's membership, under the leadership of OMB's Deputy Director for Management. The council was established to improve agency practices on information technology matters such as the design, modernization, use, sharing, and performance of agency information resources. It also facilitates intergovernmental approaches for using information resources to support common operational areas such as reducing improper payments. For example, it could assist interagency efforts to compare payment information to ensure that initial eligibility of individuals for benefits is determined correctly or to determine whether improper payments have already been made.

²⁶Other members of the CFO Council are the Controller of the Office of Federal Financial Management, OMB, and the Fiscal Assistant Secretary of the Treasury.

The PCIE primarily consists of the presidentially appointed IGs and is chaired by the Deputy Director for Management of OMB.²⁷ Its mission includes addressing integrity, economy, and effectiveness issues that transcend individual government agencies. The council conducts interagency audits, inspections, and investigations to promote economy and efficiency in federal programs and operations, and addresses governmentwide issues of fraud, waste, and abuse, including improper payments. PCIE and CFC have recently established a joint working group to address improper payments. The working group is carrying out several tasks, including

- preparing a report that defines its position on mitigating and managing payment risks;
- preparing a critique on the effectiveness of the differing processes used to determine improper payment rates;
- preparing a set of indicators that can be used to effectively represent the nature and extent of the problem of improper payments;
- preparing guidance to ensure sufficient oversight and monitoring, and adequate eligibility controls and automated systems for agencies experiencing improper payment problems; and
- developing a proposal on funding the administrative costs associated with activities related to improper payments.

Within these groups, OMB draws together operational, financial, information technology, procurement, and other experts from across the government to establish governmentwide goals in their areas of expertise and to marshal the resources within individual agencies to improve government performance.²⁸ By drawing together representatives from these various councils, OMB can provide leadership and build on council

²⁷Other members of the PCIE are the Controller of the Office of Federal Financial Management of OMB, the Vice Chairperson of the Executive Council on Integrity and Efficiency, the Associate Deputy Director for Investigations of the Federal Bureau of Investigation, the Director of the Office of Government Ethics, the Special Counsel of the U.S. Office of Special Counsel, and the Deputy Director of OPM.

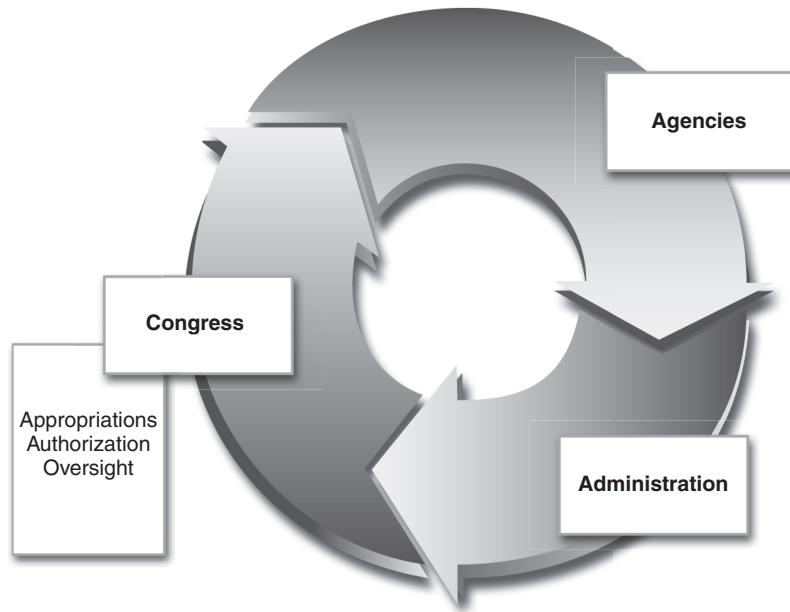
²⁸Office of Management and Budget, *Testimony before the Subcommittee on Government Management, Information and Technology, Committee on Government Reform, U.S. House of Representatives* (Washington, D.C.: Apr. 7, 2000).

members' combined knowledge, skills, and abilities and work with them to develop systems and perform other actions to reduce improper payments. Collectively, these organizations can achieve more than they can by working alone.

The Congress

The Congress can further agency efforts to reduce improper payments by using its appropriation, authorization, and oversight responsibility to continue to demonstrate a leadership role and by helping to ensure that agencies are held accountable for meeting performance goals.

Figure 4: Key Congressional Areas in the Coordination Effort



The Congress reviews and determines federal financial priorities. Through the appropriations process, it has the opportunity to review recent expenditures in detail. Specifically, the Congress can use its appropriations authority to assist agencies in setting financial priorities that support identifying, reducing, and collecting improper payments. For example, the SSA's fiscal year 2003 budget proposes \$1.05 billion for ensuring that only those who remain disabled continue receiving benefits and for assessing whether SSI recipients continue to meet the financial eligibility

requirements. In considering this budget request, the Congress can help set priorities and expectations for specific program outcomes.

The Congress also reviews the actions taken and regulations formulated by departments and agencies to make certain that program officials execute laws according to congressional intent. Therefore, it can determine whether the public's needs are adequately served by federal programs, and thus lead corrective action through legislation or administrative changes. For example, in the *Budget of the United States Government, Fiscal Year 2003*, the President proposes a legislative change to allow IRS to match the income reported on student aid applications with tax return data. According to the budget, this action could help reduce improper payments in the Department of Education's student aid programs, resulting in an estimated \$138 million savings in 2003.

Congressional oversight committees investigate alleged instances of poor administration and fraud, waste, and abuse that could result in improper payments in federal programs. On July 9, 2002, the House of Representatives passed the "Improper Payments Information Act of 2002" (H.R. 4878). This legislation is currently at the Senate for its consideration. This bill requires more stringent requirements in the areas of improper payment review and reporting than is currently required by the *President's Management Agenda, Fiscal Year 2002*, and OMB Circular A-11. Specifically, it requires that agency heads review all programs and activities that they administer, identify those that may be susceptible to improper payments, estimate the annual amount of improper payments, and, where estimated improper payments exceed the lesser of 1 percent of the total program budget or \$1,000,000 annually, report on actions the agency is taking to reduce improper payments. On the other hand, the *President's Management Agenda, Fiscal Year 2002*, and OMB Circular A-11 apply only to large-dollar programs.

Further, most federal agencies and programs are under regular and frequent reauthorizations. As a consequence of these oversight efforts, the Congress can abolish or curtail obsolete or ineffective programs by cutting off or reducing funds. Conversely, the Congress may enhance effective programs by increasing funds or reducing legislative barriers to agency actions to better control improper payments.

Conclusions

The extent of governmentwide improper payments is not known but is likely to be billions of dollars more than the approximately \$19 billion to

\$20 billion reported annually in agency financial statements over the past 3 years. Current requirements and guidance do not require or offer a comprehensive approach to measuring improper payments, developing and implementing corrective actions, or reporting on the results of the actions taken.

Measuring improper payments and designing and implementing actions to reduce or eliminate these payments are not simple tasks. However, as evidenced by the actions taken by USDA, HUD, HHS, and SSA, federal agencies can perform them and these actions can result in reductions in improper payment rates. Determining payment error rates is important to ensure program integrity. In addition, the administration and the Congress have taken important steps to address improper payments. For example, the *President's Management Agenda, Fiscal Year 2002*, and OMB's revisions to Circular A-11 demonstrate the administration's interest in and plans to address improper payments across the government. Both documents call for OMB to work with agencies to establish goals and action plans to reduce improper payments. The agenda and the revisions to the circular are important first steps. The administration must now take all necessary actions to ensure that federal agencies meet the requirements set forth in those documents. In addition, through legislation, the Congress has provided resources for anti-fraud and abuse activities and agencies with the authority to impose penalties and take actions to keep dishonest recipients from further program participation. Legislative initiatives such as these are critical to governmentwide actions to reduce improper payments and demonstrate that the Congress is willing to take actions to address improper payments. As stated in the *Budget of the United States Government, Year 2003*, "The Administration cannot improve the federal government's performance and accountability on its own. It is a shared responsibility that must involve the Congress."

Few agencies publicly report improper payment information such as improper payment rates, causes, and strategies for better managing their programs to reduce or eliminate these payments. This is evidenced by the fact that publicly available documents such as annual agency financial statements and the performance plans required by GPRA contain minimal information on the extent of improper payments, the actions taken by agencies to address them, and the impact or results of those actions on improper payment levels. OMB Circular A-11 requires that 16 agencies report improper payment information, including error rates and target rates for improvement, but that information is not publicly reported and, therefore, the Congress, the public, and others with oversight and

monitoring interests cannot use this information to hold agencies accountable for achieving target rates or otherwise implementing specifically planned actions.

On a case-by-case basis, agencies' abilities to control improper payments can be hindered by legislative, program design, and resource barriers. These barriers can hamper the design and implementation of actions to prevent, detect, and mitigate improper payments. Reducing or eliminating some of these barriers may not be feasible without legislative or program design changes that could significantly alter federal program missions or the methods used to achieve the program goals and objectives established by the Congress and the administration. Yet it must be recognized that, barring actions in these areas, these barriers will continue to restrict an agency's ability to address all of its improper payment problems.

As we noted in our report on strategies for managing improper payments, significant progress in minimizing improper payments can only occur as a collaborative governmentwide effort. The government's reduction of improper payments will only be achieved as a result of the design, development, and implementation of better internal controls. These efforts will require strong support and active involvement from agency management, the administration, and the Congress. Once committed to a plan of action, all parties must remain involved and committed to the end goals and their support must be transparent to all. Agency management, the administration, and the Congress must work together to identify and implement effective controls to reduce improper payments. The mechanisms already exist for this to happen. Agency experts in financial matters, information systems, and general management issues; governmentwide councils under OMB's direction; and the Congress each provide valuable resources that could be useful in addressing the government's improper payment problems. Individually, each can have an impact; collectively, they can achieve more by sharing experiences and practices and working together to address improper payment problems.

Recommendations for Executive Action

CFO Act Agencies

The head of each CFO Act agency should assign responsibility to a senior official, such as the COO or the CFO, for establishing policies and

procedures for assessing agency and program risks of improper payments, taking actions to reduce those payments, and reporting the results of the actions to agency management for oversight and other actions as deemed appropriate. These responsibilities should include, but not be limited to

- developing detailed action plans to determine the nature and extent of possible improper payments for all agency programs and/or activities spending federal funds;
- identifying cost-effective control activities to address the identified risk areas;
- assigning responsibility for specific areas of improper payment-related activities to appropriate program or activity officials;
- establishing improper payment goals or targets and measuring performance against those goals to determine progress made and areas needing additional actions;
- developing procedures for working with OMB and the Congress to address barriers encountered that inhibit actions to reduce improper payments; and
- periodically reporting, through publicly available documents, to the agency head, OMB, and the Congress on the progress made in achieving improper payment reduction targets and future action plans for controlling improper payments.

Office of Management and Budget

We recommend that the Director of OMB take the following actions.

- Develop, as a result of interactions with agency officials and through participation on interagency groups, information on lessons learned and best practices that federal agencies have used to address their improper payment problems. Once developed, OMB should issue specific guidance, as we have previously recommended, to agencies that provides a comprehensive approach to reducing improper payments, including providing the transparency in reporting that is crucial to addressing this problem.

-
- Work with agency officials to provide all reasonable assistance in implementing the corrective action plans developed to reduce improper payments.
 - Work with agency officials to identify and help eliminate or reduce, to the extent practicable, the barriers that restrict agency actions to reduce improper payments. OMB should work with the agencies in clearly defining and evaluating these barriers and in assisting agencies in eliminating them.
 - Work with the Congress to identify and develop actions to reduce or eliminate, to the extent practical, barriers that hinder agency actions to reduce improper payments.
 - Require federal agencies to report the information called for by OMB Circular A-11 on improper payments in a specific, publicly available document such as annual performance reports, annual agency financial statements, or other annual report. All agencies should report this information in the same document to facilitate oversight and monitoring by interested parties including the Congress and the public.

Matters for Congressional Consideration

The Congress should consider using available improper payment information to engage agencies in discussions about progress that is being made, additional steps planned, and actions the Congress can take to help reduce improper payments. When, based on these discussions, the congressional actions necessary to eliminate barriers to agency corrective action are identified, the Congress should consider taking the legislative and oversight actions necessary to provide the agencies and the administration with tools needed to reduce improper payments, both at the agency and governmentwide levels.

Agency Comments and Our Evaluation

In commenting on this report, HHS, HUD, SSA, and OMB noted that they had actions in progress or that were completed that addressed our recommendations or that agency units supported the essence of the topics covered by the report. Each of these organizations and USDA also provided technical comments and other editorial suggestions for our consideration. We considered all comments and made changes to the report, as appropriate. HHS, HUD, and SSA provided written comments to our draft report. USDA provided comments via e-mail and OMB provided

its comments orally. (The written comments from HHS, HUD, and SSA are reprinted in appendixes IV through VI, respectively.)

In oral comments, OMB generally agreed with the report's findings. OMB also stated that it believes its current focus on improper payments will address the majority of the concerns the report raises. OMB considers the recommendations in the report to already be in place, since the President has made addressing and reducing improper payments a priority in his management agenda and the Chief Financial Officers Council has established an Erroneous Payments Committee to address the problem. The President's focus on improper payments, OMB's leadership in this area, and the administration's efforts to date are positive steps to ultimately addressing the serious problems in this area. At the same time, agencies still face significant challenges in identifying and measuring their improper payments, setting performance goals, implementing corrective actions, and reporting the results against the goals. Fully implementing our recommendations will be important to addressing the underlying internal control problems agencies face in reducing improper payments.

In written comments (reprinted in app. IV) HHS stated that CMS is already implementing the recommendations of the report and is in the process of designating a senior official to oversee the identification, correction, and reporting of improper payments, as we recommended. Furthermore, CMS has undertaken a number of efforts to better manage all of its financial management systems. The comments also suggested technical revisions and clarifications, which we considered and included in the report, where appropriate.

HUD generally agreed with the report's conclusions and recommendations. Its comments (reprinted in app. V) stated that strengthening management controls and reducing improper payments are priorities for HUD's administration. HUD further indicated, that, as acknowledged in the draft report, it has already initiated corrective actions to strengthen management controls and reduce improper payments in the rental housing assistance program area. Its comments also identified several revisions and technical or editorial issues. We considered these issues and included them in the report, as appropriate.

SSA's comments (reprinted in app. VI) stated that each of its components, directly or indirectly, supports the essence of the topic of our report—reducing improper payments. Its efforts involve collaboration between SSA components, data match partners, OMB, and the Congress. The

comments also noted that the Deputy Commissioner of SSA (Chief Operating Officer) has overall responsibility for addressing the responsibilities outlined in our recommendations to the federal agencies. They also provided information on the improper payment efforts of SSA units other than those included in our review and provided suggested revisions and clarifications to the report. We considered these suggestions and included them in the report, as appropriate.

USDA responded via e-mail. The comments provided several editorial and/or clarification points which we considered and included in the report, as appropriate.

We are sending copies of this report to the Chairman, Senate Committee on Governmental Affairs, and the Chairmen and Ranking Minority Members of the House Committee on Government Reform, Senate Committee on the Budget, and House Committee on the Budget. We will also send copies to the Director of the Office of Management and Budget and the heads of the CFO agencies and components required to prepare financial statements and their respective agency CFOs and OIGs. Copies will also be made available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

This report was prepared under the direction of Sally E. Thompson, Director, Financial Management and Assurance, who may be reached at (202) 512-9450 or by e-mail at thompson@gao.gov if you or your staff have any questions. Staff contacts and other key contributors to this report are listed in appendix VII.

Sincerely Yours,

A handwritten signature in black ink, appearing to read "Sally E. Thompson".

Sally E. Thompson
Director
Financial Management and Assurance

Programs for Which Erroneous Payment Information Is Required per OMB Circular A-11

Department of Agriculture

Food Stamps
Commodity Loan Program
National School Lunch and Breakfast
Women, Infants, and Children

Department of Transportation

Airport Improvement Program
Highway Planning and Construction
Federal Transit – Capital Investment Grants
Federal Transit – Formula Grants

Department of Defense

Military Retirement
Military Health Benefits

Department of Veterans Affairs

Compensation
Dependency and Indemnity Compensation
Pension
Insurance Programs

Department of Education

Student Financial Assistance
Title I
Special Education – Grants to States
Vocational Rehabilitation Grants to States

Agency for International Development

Department of Health and Human Services

Head Start
Medicare
Medicaid
TANF
Foster Care – Title IV-E
Child Support Enforcement
State Children's Health Insurance Program
Child Care and Development Fund

Environmental Protection Agency

Clean Water State Revolving Funds
Drinking Water State Revolving Funds
National Science Foundation
Research and Education
Grants and Cooperative Agreements

Department of Housing and Urban Development

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

Office of Personnel Management

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

Railroad Retirement Board^a

Retirement and Survivors Benefits
Railroad Unemployment Insurance Benefits

Small Business Administration

(7a) Business Loan Program
(504) Certified Development Companies
Disaster Assistance
Small Business Investment Companies

Department of Labor

Unemployment Insurance
Federal Employee Compensation Act
Workforce Investment Act

Social Security Administration

Old Age and Survivors' Insurance
Disability Insurance
Supplemental Security Income Program

^aNot a CFO Act agency.

Federal Agencies and Components Required to Prepare Financial Statements under the CFO Act and OMB Guidance

Department of Agriculture
Food and Nutrition Service
Forest Service
Rural Development Mission Area
Department of Commerce
Department of Defense
 Department of Army General Funds
 Department of Navy General Funds
 Department of Air Force General Funds
 Military Retirement Trust Funds
 U.S. Army Corps of Engineers Civil Works Program
 Department of Army Working Capital Fund
 Department of Navy Working Capital Fund
 Department of Air Force Working Capital Fund
Department of Education
Department of Energy
Department of Health and Human Services
 Centers for Medicare and Medicaid Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
 Federal Aviation Administration
 Highway Trust Fund
Department of the Treasury
 Bureau of Alcohol, Tobacco and Firearms
 Internal Revenue Service
 United States Customs Service
Department of Veterans Affairs
Agency for International Development
Environmental Protection Agency
Federal Emergency Management Agency
General Services Administration
National Aeronautics and Space Administration
National Science Foundation
Nuclear Regulatory Commission
Office of Personnel Management
 Civil Service Retirement and Disability Fund
 Federal Employees Health Benefits Program
 Federal Employees Life Insurance Program
Small Business Administration
Social Security Administration

GAO Products Addressing Agency Key Outcomes and Major Management Challenges

The following lists the GAO products that addressed the status of CFO Act agency actions to achieve key outcomes and address major management challenges.

U.S. General Accounting Office. *U.S. Agency for International Development: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-721](#). Washington, D.C.: August 17, 2001.

U.S. General Accounting Office. *Department of Agriculture: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-761](#). Washington, D.C.: August 23, 2001.

U.S. General Accounting Office. *Department of Commerce: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-793](#). Washington, D.C.: June 15, 2001.

U.S. General Accounting Office. *Department of Defense: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-783](#). Washington, D.C.: June 25, 2001.

U.S. General Accounting Office. *Department of Education: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-827](#). Washington, D.C.: June 29, 2001.

U.S. General Accounting Office. *Department of Energy: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-823](#). Washington, D.C.: June 29, 2001.

U.S. General Accounting Office. *Environmental Protection Agency: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-774](#). Washington, D.C.: June 15, 2001.

U.S. General Accounting Office. *Federal Emergency Management Agency: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-832](#). Washington, D.C.: July 9, 2001.

U.S. General Accounting Office. *General Services Administration: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-931](#). Washington, D.C.: August 3, 2001.

U.S. General Accounting Office. *Health and Human Services: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-748](#). Washington, D.C.: June 15, 2001.

U.S. General Accounting Office. *Department of Housing and Urban Development: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-833](#). Washington, D.C.: July 6, 2001.

U.S. General Accounting Office. *Department of the Interior: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-759](#). Washington, D.C.: June 15, 2001.

U.S. General Accounting Office. *Department of Justice: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-729](#). Washington, D.C.: June 26, 2001.

U.S. General Accounting Office. *Department of Labor: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-779](#). Washington, D.C.: June 15, 2001.

U.S. General Accounting Office. *NASA: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-868](#). Washington, D.C.: July 31, 2001.

U.S. General Accounting Office. *National Science Foundation: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-758](#). Washington, D.C.: June 15, 2001.

U.S. General Accounting Office. *Nuclear Regulatory Commission: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-760](#). Washington, D.C.: June 29, 2001.

U.S. General Accounting Office. *Office of Personnel Management: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-884](#). Washington, D.C.: July 9, 2001.

U.S. General Accounting Office. *Small Business Administration: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-792](#). Washington, D.C.: June 22, 2001.

Appendix III
GAO Products Addressing Agency Key
Outcomes and Major Management Challenges

U.S. General Accounting Office. *Social Security Administration: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-778](#). Washington, D.C.: June 15, 2001.

U.S. General Accounting Office. *Department of State: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-02-42](#). Washington, D.C.: December 7, 2001.

U.S. General Accounting Office. *Department of Transportation: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-834](#). Washington, D.C.: June 22, 2001.

U.S. General Accounting Office. *Department of the Treasury: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-712](#). Washington, D.C. June 15, 2001.

U.S. General Accounting Office. *Veterans Affairs: Status of Achieving Key Outcomes and Addressing Major Management Challenges.* [GAO-01-752](#). Washington, D.C. June 15, 2001.

Comments from the Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

JUL 19 2002

Ms. Sally E. Thompson
Director, Financial Management and Assurance
United States General
Accounting Office
Washington, D.C. 20548

Dear Ms. Thompson:

Enclosed are the Department's comments on your draft report entitled, "Financial Management: Unified Approach Needed to Better Manage the Government's Improper Payments Problems." The comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department also provided several technical comments directly to your staff.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely,

A handwritten signature in cursive script, appearing to read "Janet Rehnquist".

Janet Rehnquist
Inspector General

Enclosure

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for General Accounting Office reports. The OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

Appendix IV
Comments from the Department of Health
and Human Services

**COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES
ON THE GENERAL ACCOUNTING OFFICE'S DRAFT REPORT, "FINANCIAL
MANAGEMENT: UNIFIED APPROACH NEEDED TO BETTER MANAGE THE
GOVERNMENT'S IMPROPER PAYMENTS PROBLEMS" (GAO-02-749)**

The Department of Health and Human Services (HHS) appreciates the opportunity to comment on this draft report and concurs with all the findings in the report.

General Comments

The Centers for Medicare & Medicaid Services (CMS) have been undertaking a number of efforts to better manage all of its financial management systems. The CMS has begun the implementation of the Healthcare Integrated General Ledger Accounting System (HIGLAS), which will eventually replace the 53 different systems now in use by the private insurance companies, that process and pay nearly 3 million Medicare claims every day. In addition, CMS has developed and is in the process of implementing the Comprehensive Error Rate Testing Program and the Payment Error Prevention Program, which will assist CMS management in identifying and managing improper payments.

In addition, the rate of improper Medicare payments continued to decline in 2001. The improper payment rate, which estimates the portion of Medicare fee-for-service payments that do not comply with Medicare laws and regulations, was 6.3 percent in fiscal year (FY) 2001, compared with 6.8 percent in FY 2002, less than half the 13.8 percent estimated in 1996, the first year HHS' Office of Inspector General calculated the rate.

The CMS is already implementing the recommendations of the report and is in the process of designating a senior official for oversight of identification, correction of and reporting of improper overpayments, as GAO recommended.

Comments from the Department of Housing and Urban Development



U. S. Department of Housing and Urban Development
Washington, D.C. 20410-0100

JUN 28 2002

OFFICE OF THE CHIEF FINANCIAL OFFICER

Ms. Sally E. Thompson
Director, Financial Management and Assurance
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Thompson:

Thank you for the opportunity to review and comment on the U.S. General Accounting Office's (GAO) draft report entitled *Financial Management: Unified Approach Needed to Better Manage the Government's Improper Payments Problems* (GAO-02-749). The U.S. Department of Housing and Urban Development (HUD) generally agrees with the GAO's conclusions and recommendations for consideration by the CFO Act Agencies, the Office of Management and Budget, and the Congress. Strengthening management controls and reducing improper payments are priorities for HUD's new administration.

As indicated in the draft report, HUD has already initiated corrective actions to strengthen management controls and reduce improper payments in the rental housing assistance programs area, our largest appropriated activity. The goal of reducing improper rental assistance payments 50 percent by 2005 is included in the President's Management Agenda and HUD's Fiscal Year (FY) 2003 Annual Performance Plan, along with HUD's plans and interim annual goals for attaining that overall goal. While the stated scope of the GAO review focused on the content of agencies' FY 2002 Annual Performance Plans, we are enclosing relevant excerpts from our FY 2003 Annual Performance Plan for GAO's consideration and reference in their final report. HUD's FY 2003 Annual Performance Plan, which was published in April 2002, is the first Annual Performance Plan to fully reflect the goals and plans of HUD's new administration.

The following are our comments or requested revisions on technical or editorial issues for the GAO's consideration in completing the final report:

1. On page 9, the last sentence of the second paragraph of the Background section should be corrected to clarify the intended meaning.
2. On page 16, it is requested that the table be revised as follows to more clearly and correctly reflect the nature of HUD's evolving development and reporting of improper payment estimates in the footnotes to its consolidated financial statements for FYs 1999, 2000 and 2001.

Appendix V
Comments from the Department of Housing
and Urban Development

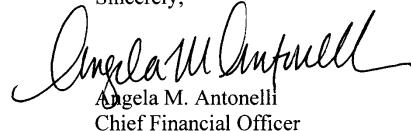
2

Department or agency	1999	2000	2001
Department of Housing and Urban Development			
Rental Housing Subsidy Programs			
Underreporting of Tenant Income	935.0	617.0	-
Intermediary Processing Error	-	1,254.0	-
Combined Annual Error Estimate	-	-	2,013.0

3. On page 16, it is requested that a footnote be added to the row on HUD's rental housing subsidy programs stating: "In fiscal year 2000, HUD expanded the scope of its error estimation to include subsidy determination errors by its administrative intermediaries, in addition to the impacts of tenant underreporting of income, and further perfected its methodology with a combined estimate of both types of errors in FY 2001."
4. On page 39, we request that the last sentence before the Risk Assessment section be deleted as it does not correctly reflect the role of REAC. We suggest the following sentence be added in its place: "The RHIIP advisory group has taken steps to increase HUD's income data matching authority and utilization. This will enable "upfront" income data sharing to avoid subsidy errors attributed to unreported and underreported income sources."

Again, the Department appreciates the opportunity to comment on this draft report before publication. If you have any questions, please contact James M. Martin, Assistant Chief Financial Officer for Financial Management, at (202) 708-0638.

Sincerely,



The signature is handwritten in black ink, appearing to read "Angela M. Antonelli".

Angela M. Antonelli
Chief Financial Officer

Enclosure

Comments from the Social Security Administration



SOCIAL SECURITY Office of the Commissioner

July 3, 2002

Ms. Sally E. Thompson
Director, Financial Management and Assurance
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Thompson:

Thank you for the opportunity to review and comment on the draft report, "Financial Management: Unified Approach Needed to Better Manage the Government's Improper Payments Problems" (GAO-02-749). Our comments on the report are enclosed. If you have any questions, please have your staff contact Mark Welch at (410) 965-0374.

Sincerely,

A handwritten signature in black ink that reads "Jo Anne B. Barnhart".

Jo Anne B. Barnhart
Commissioner

Enclosure

SOCIAL SECURITY ADMINISTRATION WASHINGTON D.C. 20254

Appendix VI
Comments from the Social Security
Administration

***COMMENTS OF THE SOCIAL SECURITY ADMINISTRATION (SSA) ON THE
GENERAL ACCOUNTING OFFICE'S (GAO) DRAFT REPORT, "FINANCIAL
MANAGEMENT: UNIFIED APPROACH NEEDED TO BETTER MANAGE THE
GOVERNMENT'S IMPROPER PAYMENTS PROBLEMS" (GAO-02-749)***

Thank you for the opportunity to provide comments on this GAO draft report. We appreciate that SSA is acknowledged for being in the forefront of reporting on and addressing improper payments. We also appreciate GAO's presentation of factors that go beyond agency control that can cause improper payments.

Although the dollar amount of the improper payments in Social Security programs contained in this report appear large, we think it is important to present them in context with the size of the outlays involved and the accuracy rates achieved for the programs. Specifically, total outlays for the OASI program for FY 2000 were \$353.4 billion and \$33.1 billion for the SSI program. The OASI accuracy rate for FY 2000 was 99.9 percent and the SSI accuracy rate was 94.7 percent.

GAO Recommendation

The head of each Chief Financial Officers (CFO) Act agency should assign responsibility to a senior official, such as the Chief Operating Officer or the CFO, for establishing policies and procedures for assessing agency and program risks to improper payments, taking actions to reduce those payments, reporting the results of the actions to upper-level agency management for oversight and other actions as deemed appropriate. These responsibilities should include, but not be limited to:

- Developing detailed action plans to determine the nature and extent of the possible improper payments for all agency programs and/or activities spending federal funds;
- Identifying cost-effective control activities to address the identified risk areas;
- assigning responsibility for specific areas of improper payment-related activities to appropriate program or activity officials;
- Establishing improper payment goals or targets and measuring performance against those goals to determine progress made and areas needing additional actions;
- Developing procedures for working with the Office of Management and Budget (OMB) and the Congress to address barriers encountered that inhibit actions to reduce improper payments; and
- Periodically reporting, through publicly available documents, to the agency head, OMB, and the Congress on the progress made in achieving improper payment reduction targets and future action plans for controlling improper payments.

Appendix VI
Comments from the Social Security
Administration

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SSA Comment

At SSA, every component, directly or indirectly, supports the essence of the topic of the GAO report - reducing improper payments. This collaborative effort involves SSA components, data match partners, OMB and Congress. The Deputy Commissioner of SSA (Chief Operating Officer) has overall responsibility for addressing the responsibilities outlined on page 69 of the report. Three Deputy Commissioner-level components have the lead in addressing specific portions. The responsibilities of the Deputy Commissioner and the component leads are:

- Deputy Commissioner of SSA--oversees the Agency's efforts to identify and reduce sources of improper payments. One specific example is the Agency's SSI Corrective Action Plan, which outlines our efforts to better manage the SSI program and remove the SSI program from the GAO's "high risk" designation. The Deputy Commissioner had the lead responsibility for the development of the Plan and is responsible for its implementation. The Commissioner and the Deputy Commissioner have met with the Comptroller General about the Plan and the initiatives we plan to pursue to improve prevention of overpayments, increase overpayment detection and increase collection of debt.
- Office of Disability and Income Support Programs (ODISP)--establishes the operational policies and procedures of the Agency to minimize the occurrence of improper payments. ODISP is also the lead component for establishing and maintaining data match agreements with outside entities.
- Office of Operations--implements the operational policies and procedures set by ODISP. The Office of Operations provides valuable input into policy and procedure development to ensure the efficacy in reducing improper payments.
- Office of Finance, Assessment and Management (OFAM)-- measures the accuracy of program payments through the stewardship studies. OFAM also reports on the level of improper payments outside the Agency through the budget submission process and the Annual Performance and Accountability Report.

Additional Comments

Table 1 on page 16 of the report is entitled "Improper Payments Reported by Federal Agencies and Components in Their Fiscal Years 1999, 2000 and 2001 Financial Statements." For SSA, the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) "improper payments" totals shown appear to be taken from the "Net Accounts Receivable" amounts found in the "Balance Sheet by Major Program" included in the SSA Performance and Accountability Report (PAR) for these fiscal years. It is important to note that the amounts included in "accounts receivable" are not synonymous with the definition of "improper payments" cited on page 4 of the GAO report and in the middle paragraph on page 9 of the report. Although the accounts receivable represent overpayments (monies overpaid that are due SSA), many of these overpayments were not improperly made in that SSA was required by law/regulation, or by Federal Court decision, to make the payment. Examples include but are not limited to: (1) DI overpayments that result from disability cessations where SSA was required to continue

Appendix VI
Comments from the Social Security
Administration

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payments during the appeals process, (2) Supplemental Security Income program (SSI) payments issued while people pursue their appeal rights under the Goldberg/Kelly court decision, and (3) cases in which an individual alleging non-receipt of benefit payments cashes both the original and subsequently issued replacement benefit checks.

The Table 1 dollar amounts relating to the SSA DI and OASI programs for FY 2001 are reversed. The correct amounts are \$1,313 million for DI and \$1,339 for OASI.

GAO reviewed agencies' FY 2001 and FY 2002 annual performance plans and the Budget of the United States Government for FY 2003 to assess the extent to which information on agencies' improper payments was included. On page 26 of the report, GAO states its intent to review FY 2003 annual performance plans to assess the progress agencies have made in addressing improper payments. We expect that GAO's subsequent report will show improvement at SSA.

We suggest that GAO's subsequent report also include a review of agencies' annual performance reports, the vehicles for reporting actual performance in meeting agency performance goals, and which also describe goals, measures, strategies, and procedures to validate performance data related to improper payments. This expanded, updated review will enable GAO to more fully evaluate agencies' progress in addressing erroneous payment problems.

The explanation at the top of page 52 of the GAO draft report about how income affects the monthly amount for SSI benefits is incomplete. We believe this explanation should include a discussion of how retrospective monthly accounting works, including mention that once the individual or couple is determined to be eligible based on income received in the current month, the amount of payment is generally based on countable income received in the second month before the current month.

On page 61 of GAO's report, Table 3 lists agencies participating in councils. Under the last column, "President's Council on Integrity and Efficiency," there is no check for SSA. Since SSA's Office of the Inspector General is a member of this council, we suggest that this information be added to GAO's chart.

GAO Contacts and Staff Acknowledgments

GAO Contacts

Tom Broderick, (202) 512-8705
Barbara House, (213) 830-1107

Acknowledgments

In addition to those named above, the following individuals made important contributions to this report: David Elder, Bonnie McEwan, and Tarunkant Mithani.

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