



Highlights of [GAO-06-347](#), a report to the Chairman, Subcommittee on Government Management, Finance, and Accountability, Committee on Government Reform, House of Representatives

Why GAO Did This Study

Over the past several years, GAO has reported that federal agencies are not well positioned to meet requirements of the Improper Payments Information Act of 2002 (IPIA). For fiscal year 2005, estimated improper payments exceeded \$38 billion but did not include some of the highest risk programs, such as Medicaid with outlays exceeding \$181 billion for fiscal year 2005. Overall, state-administered programs and other nonfederal entities receive over \$400 billion annually in federal funds. Thus, federal agencies and states share responsibility for the prudent use of these funds. GAO was asked to determine actions taken at the state level to help federal agencies estimate improper payments for state-administered federal programs and assistance needed from the federal level to support the respective federal agencies' implementation of IPIA.

What GAO Recommends

GAO is making four recommendations to the Office of Management and Budget (OMB) to better assist federal agencies' implementation of IPIA requirements for state-administered federal programs, including determining states' role in assisting federal agencies to report national improper payment estimates on federal programs. OMB agreed with GAO's recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-347.

To view the full product, including the scope and methodology, click on the link above. For more information, contact McCoy Williams at (202) 512-9095 or williamsm1@gao.gov.

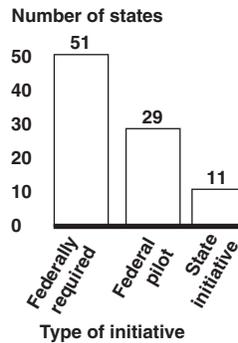
IMPROPER PAYMENTS

Federal and State Coordination Needed to Report National Improper Payment Estimates on Federal Programs

What GAO Found

To date, states have been subject to limited requirements to assist federal agencies in estimating improper payments. For the 25 major state-administered federal programs surveyed, only 2 programs—the Food Stamp and Unemployment Insurance programs—have federal requirements for all states to estimate improper payments. A limited number of federal agencies are conducting pilots to estimate improper payments in other programs, but state participation is voluntary. Where no federal requirement or pilot is in place, 5 programs involving 11 states had estimated improper payments during fiscal years 2003 or 2004.

Number of States in GAO Survey Estimating Improper Payments



Source: GAO analysis.

Note: The 51 states are the 50 states and the District of Columbia.

States have a fundamental responsibility to ensure the proper administration of federal awards by using sound management practices and maintaining internal controls. To do this, states reported using a variety of techniques to prevent and detect improper payments. All states, except for one, responded that they use computer-related techniques, such as fraud and abuse detection programs or data matching, to prevent or detect improper payments. Other techniques selected states used included performing statewide assessments and recovery auditing methods. States also reported receiving federal incentives and penalties to assist with reducing improper payments, although most of these actions related to the Food Stamp Program, which gives incentives and penalties to states having error rates below and above the program's national error rate.

Of the 240 state program officials surveyed, 100 identified tools that would be needed to estimate improper payments and help federal agencies meet various IPIA requirements, including guidance on estimating improper payments and performing risk assessments. OMB has begun planning for increased state involvement in measuring and reporting improper payments via the Erroneous and Improper Payments Workgroup and IPIA guidance. However, much work remains at the federal level to identify and estimate improper payments for state-administered federal programs, including determining the nature and extent of states' involvement to assist federal agencies with IPIA reporting requirements.